Changes in the Law of Indirect Infringement and Divided Infringement

Prepared by Steve Schaefer

May 10, 2012
Overview

• Inducing infringement – 35 USC 271(b):
  • The knowledge/intent requirement, after the United States Supreme Court spoke in *Global-Tech Appliances v. SEB* (May 31, 2011).

• “Divided” Infringement – Direct Infringement under 35 USC 271(a) when there are Multiple Entities:
  • The “Single Entity Rule” of *BMC Resources v. Paymentech* (CAFC 2007).
  • The pending *en banc* CAFC cases of (a) *Akamai v. Limelight*, and (b) *McKesson v. Epic Systems* (argued November 18, 2011; awaiting CAFC *en banc* decision).
## Infringement: 35 U.S.C. § 271

<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>271(a)</td>
<td>Direct: Strict liability (no knowledge required); single entity, all elements</td>
</tr>
<tr>
<td>271(b)</td>
<td>Inducement: Requires knowledge that conduct is infringing</td>
</tr>
<tr>
<td>271(c)</td>
<td>Contributory: Sale of Component; no substantial non-infringing uses</td>
</tr>
<tr>
<td>271(d)</td>
<td>Misuse provision: Identified permissible patent owner actions</td>
</tr>
<tr>
<td>271(e)</td>
<td>Experimental use exception / drug patent provisions</td>
</tr>
<tr>
<td>271(f)</td>
<td>Sale of kit for assembly outside United States</td>
</tr>
<tr>
<td>271(g)</td>
<td>Import of product made outside United States by patented method</td>
</tr>
</tbody>
</table>
Inducing Infringement
“Knowledge-of-the-patent” Requirement

*Global-Tech Appliances, Inc. et al. v. SEB S.A.*
United States Supreme Court
563 U.S. ____ (May 31, 2011)

(a) 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.

(b) Whoever **actively induces** infringement of a patent shall be liable as an infringer.

- Inducement requires a direct infringement by someone else.
- “Actively induces” has long been held to require “knowledge” on the part of the party who induces another to infringe.
Inducement: Global-Tech (2011)

Background Facts


T-Fal 3.3L Fryer
$137.63 at Amazon.com
1997: Global-Tech copies Patente SEB’s fryer design:
- Sunbeam (USA) asks Global-Tech (Hong Kong) to supply Sunbeam with deep fryers meeting certain specifications.
- Global-Tech purchase an SEB “T-Fal” fryer in Hong Kong, and copies all but its cosmetic features.
- No US Patent markings on the SEB fryer.

1997: Global-Tech’s attorney gives “right-to-practice” opinion:
- GT retains attorney to conduct right-to-use study.
- Oops ... GT doesn’t tell the attorney that the design was copied from SEB’s fryer.
- Oops again ... attorney doesn’t find the SEB patent.
- Attorney’s opinion states that GT’s fryer design doesn’t infringe any patents that the attorney had found.
Background Facts (continued)

- 1998: SEB sues Sunbeam, which quickly settled.
- Sunbeam notifies Global-Tech about the lawsuit and the patent.
- Global-Tech goes on to supply fryers to two more companies, Fingerhut, and Montgomery Ward.
- Jury Verdict (2007):
  - Found both direct infringement and inducing infringement.
  - Damages ($4.65M USD): Based on fryers sold by Sunbeam, Fingerhut, and Montgomery Ward; not based on fryers sold by Global-Tech. In other words, damages were based solely on the inducement finding.
  - Found willful infringement (Judge enhanced damages and awarded attorney fees, but that was later vacated in view of In re Seagate, CAFC 2007).
Inducement: *Global-Tech* (2011)

CAFC Opinion (February 5, 2010)

• Background Legal Framework: *DSU Medical v. JMS*, 471 F.3d 1293 (CAFC en banc, 2006):
  • “The requirement that the alleged infringer knew or should have known that his actions would induce actual infringement necessarily includes the requirement that he or she knew of the patent.”
  • Settled conflicting caselaw, and held that the knowledge requirement of 271(b) was to knowingly induce infringement, and not merely to knowingly induce the acts that constitute direct infringement.

• *Global-Tech* CAFC Panel Opinion (Rader, Bryson, Lynn):
  • *DSU* opinion “did not ... set out the metes and bounds of the knowledge-of-the patent requirement.”
  • *Global-Tech* Holding: Actual knowledge of a patent may be fulfilled if an accused infringer has “deliberately disregarded a known risk that [the patent owner] had a protective patent.”
CAFC opinion (continued)

• CAFC found there was "deliberate disregard" of a known risk that the patent owner had a protective patent because:

1. GT purchased patent owner SEB’s fryer.
2. GT did not inform attorney of the purchased SEB fryer.
3. GT’s president knowledgeable in patent law (named on 29 US pats)
4. GT’s argument that SEB’s fryer wasn’t marked with a US patent number is not an excuse, because the fryer was purchased in Hong Kong. (And Global-Tech offered no explanation as to why a product in Hong Kong would have a US patent number on it.)
Inducement: *Global-Tech* (2011)

US Supreme Court (May 31, 2011)

**Affirmed inducing infringement, but made standard stricter:**

- Agreed with the CAFC that:
  - Inducement under Section 271(b) has a “knowledge-of-the patent” requirement (thus affirming *DSU, CAFC 2006*).
  - “Actual knowledge” of the patent in a strict sense is not required.
- When actual knowledge not present, standard is **“willful blindness,”** requiring:
  - “(1) the defendant must subjectively believe that there is a high probability that a fact [the existence of the patent] exists,” and
  - “(2) the defendant must take deliberate actions to avoid learning of that fact.”
- “Willful indifference” is more than “recklessness” or “negligence.”
Inducement: *Global-Tech* (2011)

Implications / Questions

- **Apparatus claims:** It may only be a damages issue. *Global-Tech* was also a direct infringer, but the damages question on the jury verdict assumed inducing infringement.
- **Method claims:** Greater impact. *Global-Tech* arguably reduces the value of method claims where customers perform the method (direct infringement).
- **Does not doing any freedom-to-operate study constitute “willful blindness?”**
  - If so, what is the downside of that?
- **Can a patent owner sue for inducing patent infringement on the day that a patent issues?**
  - Can knowledge of a published patent application create knowledge of the eventual patent?
  - Can “knowledge-of-a-patent” arise during the course of a lawsuit?
- **Irony:** How can there be “willful blindness” to meet the inducing infringement provision of Section 271(b), but no “willful infringement” for an enhancement of damages and an award of attorney fees?
Divided (“Split”) Infringement

CAFC Pending *En Banc* Cases


(a) 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.

(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

(c) 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.

(d)-(g).
Established “Single Entity Rule,” with Very Limited Exception:

- **BMC Resources v. Paymentech**, 498 F.3d 1373 (CAFC 2007);
  **Muniauction v. Thompson Corp.**, 532 F.3d 1318 (CAFC 2008).
- “Single Entity Rule”: Direct infringement under 271(a) generally requires a single actor to practice (make, use, sell ...) every element of the claim.
- Very Limited Exception: Where multiple parties together directly infringe, one party may be entirely liable if that party “directs or controls” the second party.
- “Indirect infringement” requires there to be a direct infringement by a single entity.
  - 271(a) inducement, and 271(b) contributory infringement.
Akamai v. Limelight
Background Facts

• Akamai’s patent: Distributed system for storing and serving up web pages, which involves the functioning of a web service (Akamai) and its customers.
• Limeline (accused infringer) operated a web service that directly competed with Akamai.
Background Facts (cont.)

- **LIMELIGHT** contracts with **CONTENT SERVICE PROVIDERS** to use Limelight’s service.
- **Content service providers** must choose web page object it wants Limelight to service, and “tag” those objects as instructed by Limelight.
- **Limelight** then replicates those tagged objects on some or all of its “ghost” host computers, and directs a user’s request to those computers to get the web page.
Akamai’s Patented Method Claim

34. A content delivery method, comprising:
   distributing a set of page objects across a network of content servers managed by a domain other than a content provider domain, wherein the network of content servers are organized into a set of regions;
   for a given page normally served from the content provider domain, tagging at least some of the embedded objects of the page so that requests for the objects resolve to the domain instead of the content provider domain;
   in response to a client request for an embedded object of the page:
   resolving the client request as a function of a location of the client machine making the request and current Internet traffic conditions to identify a given region;
   and
   returning to the client an IP address of a given one of the content servers within the given region that is likely to host the embedded object and that is not overloaded.
Bottom Line – No Infringement

- Joint infringement requires either (i) an agency relationship, or (ii) a contractual obligation:
  - “This court therefore holds as a matter of Federal Circuit law that there can only be joint infringement when [A] there is an agency relationship between the parties who perform the method steps or [B] when one party is contractually obligated to the other to perform the steps. Neither is present here.”
  - Nevertheless, a party cannot avoid infringement simply by contracting out steps of a patented process to another entity.
  - Court reiterated: Concerns regarding the difficulty of proving multi-party infringement claims “can usually be offset by proper claim drafting.”
McKesson v. Epic Systems
McKesson Case: Background Facts

- McKesson’s patent: Electronic method of communication between healthcare providers and patients involving personalized web pages for doctors and their patients.
- Epic (accused infringer): Software company that licenses “MyChart” software to healthcare providers, who operate it and offer it to patients.
1. A method of automatically and electronically communicating between at least one health-care provider and a plurality of users serviced by the health-care provider, said method comprising the steps of:

   initiating a communication by one of the plurality of users to the provider for information, wherein the provider has established a preexisting medical record for each user;

   enabling communication by transporting the communication ...;

   electronically comparing content of the communication ...;

   returning the response to the communication automatically ...;

   said provider/patient interface providing a fully automated mechanism for generating a personalized page or area within the provider’s Web site for each user serviced by the provider; and

   said patient-provider interface service center for dynamically assembling and delivering customer content to said user.
CAFC Panel Decision (April 12, 2011)

**Bottom Line – No Infringement**

- McKesson sued Epic under an inducement theory [271(b)], which requires that there be a direct infringement.
- McKesson alleged the health care providers use, along with patients, was the direct infringement.
- CAFC followed *Akamai* decision (December 12, 2011):
  - No agency relationship between health care provider and patient (software user)
  - No contractual obligation on the part of the patient to perform the “initiating a communication” function of the patent claim.
CAFC En Banc Review (All 11 Active Judges)

• Panel Decisions:
  • Akamai v. Limelight (December 20, 2012): Rader (Author), Linn, Prost.
  • McKesson v. Epic (April 12, 2011): Linn (Author), Bryson, Newman (Dissent).

• En Banc Orders:
  • Akamai – April 20, 2011.
  • McKesson – May 26, 2011.

• En Banc Question: “If separate entities each perform separate steps of a method claim, under what circumstances would that claim be directly infringed and to what extent would each of the parties be liable?”
  • Oral Argument: November 18, 2011.
  • Decision ??
Summary of Arguments

• Patentees -- there should be liability for direct infringement under 271(a) if any one or more of the following is true:
  • Direction or Control Test (*BMC*)
  • Collaboration by Agreement
  • Knowingly Combine Method Steps Together

• Arguments to the contrary:
  • The US Patent Laws provide for only limited cases of joint liability under Sections 271(b) (inducement) and 271(c) (contributory infringement), and these provisions require intent/knowledge, whereas direct infringement under 271(a) is strict liability.
  • To overturn the “single entity” would upset balance of statutory scheme.
  • Patent prosecutors know how to draft claims appropriately.

• Tune in next year to find out ...
• Claiming requires an understanding of the client’s business model, its competitors’ business models, and how those might change over time.

• System claims do not have the level of problems with multiple parties that method claims have:
  • Section 271(a) provides for infringement for making, using, selling ... the claimed invention. Method claims are only used.
  • For a distributed system claim, one entity (computer user) may make “beneficial use” of component owned by another entity, and do not have the multi-party problems. *NTP, Inc. v. Research in Motion, Ltd.*, 418 F.3d. 1282, 1326 (Fed. Cir. 2005).
  • In *NTP v. RIM*, the CAFC found that the “use” of a patented system with a component located outside the United States may result in liability for infringement of the patent under §271(a).
Thank You!

Steve Schaefer
Principal
612-337-2508
schaefer@fr.com