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Divided Infringement: The Times They Are A-Changin'

Law360, New York (July 11, 2013, 12:05 PM ET) -- This article is a continuation of our April 18, 2013, article, "Divided Infringement Of System Claims After Centillion." That article was narrowly focused on what is sometimes referred to as divided infringement in the context of system claims and, in particular, on the Federal Circuit's Centillion decision. [1] Looking more broadly, however, the divided infringement defense remains a powerful tool for defending against patent infringement allegations in both direct and indirect infringement situations.

Beginning in 2007 with the BMC Resources case, the Federal Circuit issued a series of rulings involving divided infringement. In BMC, the Federal Circuit held that direct infringement may not be found in a divided infringement situation (e.g., where all of the steps of a claimed method are not performed by the same actor/entity) absent the patentee demonstrating direction or control between the actors/entities.[2] The BMC court also found that a party may not be held liable for induced infringement unless a single actor performs each step of the claimed method (i.e., the single actor rule).[3]

In Centillion, the Federal Circuit ruled that the only actor/entity that can be liable for making or using a system is the actor/entity that puts "the invention into service, i.e., control[s] the system as a whole and obtain[s] benefit from it." [4] That actor/entity puts the so-called "final element" into place and thus "makes" the system or combination.[5]

In 2012, the entirety of the Federal Circuit examined divided infringement in Akamai Technologies Inc. v. Limelight Networks Inc., 692 F.3d 1301 (Fed. Cir. 2012) (en banc). As Akamai has received a lot of commentary, it is assumed the readers are familiar with the facts. The Akamai decision changed the landscape of divided infringement in an important way. Although the court left in tact the control/agency relationship test for direct infringement,[6] the court abolished the single actor rule for induced infringement: "If a party has knowingly induced others to commit the acts necessary to infringe the plaintiff's patent and those others commit those acts, there is no reason to immunize the inducer from liability for indirect infringement simply because the parties have structured their conduct so that no single defendant has committed all the acts necessary to give rise to liability for direct infringement." [7]

Thus, after Akamai, to demonstrate direct infringement in multiple actor/entity situation, the patentee must still demonstrate that the accused infringer directed or controlled the other actor's/entity's actions, but that no single entity performs each of the claimed steps is not fatal to an inducement claim. With respect to system claim, because the actor that added the final element and/or put the system into service was deemed the direct infringer, the Akamai decision does not overrule Centillion. But, as discussed below in the Katz case, the district courts are now applying Akamai and the concept of control or agency to the system claim analysis.

A survey of district court cases reveals that practitioners need to plan carefully for a case involving claims of divided infringement. For example, in *Civix-DDI LLC v. Hotels.Com LP*, 2012 U.S. Dist. LEXIS 156441 (N.D. Ill. Nov. 1, 2012), the district court granted Civix's motion for reconsideration of summary judgment to defendant in light of *Akamai*. In its earlier ruling the district court concluded that there was no factual dispute that Hotels.com did not store video on its own database, and therefore, did not infringe a method claim for determining items of interest in a category that required storing information about the items of interest in a database.[8]

The district court thereafter reversed itself, stating that under *Akamai* the appropriate inquiry is not focused entirely on the situation where Hotels.com stored video in its own database, but rather whether it stores video on its own or through a third party. According to the court, it was enough for Civix to show that Hotels.com caused, urged, encouraged or aided the infringing conduct and that the third party carried out this conduct.[9]

Similarly, in *Driessen v. Sony Music Entm't*, 2012 U.S. Dist. LEXIS 152822 (D. Utah Oct. 23, 2012), the plaintiff alleged that the defendant infringed its patent through multiple actors' involvement in the manufacture, distribution and/or sale in the United States of defendant Sony Music Entertainment's Platinum Music Pass and other products containing electronic sell-through itemized merchandise.[10]

In the context of a motion to dismiss, the court analyzed the issue of liability for induced infringement by applying the *Akamai* criteria. Denying the motion, the court found that the plaintiff sufficiently showed that "either between the retailers and the end-users collectively or on the part of each of the retailers individually, an actual infringement has occurred." [11] The court also found a sufficient factual basis that Sony "knew or should have known" that its actions in manufacturing and promoting the Platinum Music Pass to Retailers, and encouraging them to present and sell it to customers, would "induce actual infringements." [12]

More recently, in *In re Katz Interactive Call Processing Patent Litig.*, MDL 2:07 ML 1816-B-RGK, 2:07-DV-2196-B-RGK (C.D. Cal. June 6, 2013), the court denied defendants' motion for summary judgment of noninfringement based on *Akamai*. There, citing *Centillion*, defendant argued that it could not be liable for direct infringement of Katz's voicemail patents because key portions of the system (e.g., the interactive voice response system) was controlled by the telecommunications companies, not the defendant.[13]

The district court, however, disagreed and denied summary judgment. According to the court, the defendants exercised control over the entire system, and, more importantly, the telecommunications carriers were contractually bound by the defendant to provide portions of the accused system.[14] The defendant argued in its reply that vicarious liability theory was not applicable because there is only a single user of a system claim — the entity that adds the final element and/or puts the invention into service. The district court, however, was unconvinced and denied summary judgment based on *Akamai*. The defendant's no-inducement argument suffered a similar fate.

Most recently, on June 25, 2013, the Federal Circuit addressed induced infringement in *Commil USA LLC v. Cisco Sys. Inc.*, No. 2012-1042 (Fed. Cir. June 25, 2013). There, the court concluded that the jury instruction — "Cisco actually intended to cause the acts that constitute direct infringement and that Cisco knew or should have known that its actions would induce others to infringe" — was legally incorrect.[15]

Under the *Global-Tech Appliances Inc. v. SEB SA*, 131 S. Ct. 2060 (2011) standard, the court concluded that the "knew or should have known" language in the jury instruction permitted the jury to find induced infringement based on negligence and/or recklessness and not the "actual knowledge" or "willful blindness" standard required by *Global-Tech*. [16]

Applying the correct standard, the court concluded that the district court's exclusion of Cisco's proffered evidence of a good faith belief of invalidity was improper because "a good faith belief of invalidity [like a good faith belief of noninfringement] is evidence that may negate the specific intent to encourage another's infringement, which is required for induced infringement." [17]

While the amount of "good faith" needed to negate the intent prong of inducement will be hotly debated on a case-by-case basis, this defense will likely become important in inducement cases going forward. More importantly, at least for the subject matter of this article, although Commil involved induced infringement by a single actor, its holding has possible applicability in the context of divided infringement. For example, an entity accused of infringing a system claim may have a good faith belief that it does not direct or control the actor/entity who actually "makes" or "uses" the system by providing the final element. [18] Such a good faith belief may negate inducement.

The body of divided infringement law continues to evolve. With an increasing number of patent lawsuits accusing computer networks, wireless networks and other business-related activities that involve multiple entities/actors providing one or more components of the alleged invention, it is likely that divided infringement will remain important for the foreseeable future. Keeping track of these continued developments will also remain important lest the practitioner be left "blowin' in the wind."

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[1] Centillion Data Sys. LLC v. Qwest Comm's Int'l Inc., 631 F. 3d 1279 (Fed. Cir. 2011)

[2] BMC Resources Inc. v. Paymentech LP, 498 F.3d 1373, 1380-81 (Fed. Cir. 2007).

[3] Id.

[4] Centillion, 631 F.3d at 1285.

[5] See Cross Med. Prods. Inc. v. Medtronic Sofamor Danek Inc., 424 F.3d 1293, 1312 (Fed. Cir. 2005).

[6] Akamai, 692 F.3d at 1307.

[7] Id. at 1309.

[8] Civix, 2012 U.S. Dist. LEXIS 156441 at *14.

[9] Id.

[10] Driessen, 2012 U.S. Dist. LEXIS 152822 at *15-16.

[11] Id. at *21.

[12] Id. at *24.

[13] In re Katz Interactive Call Processing Patent Litig., MDL 2:07 ML 1816-B-RGK, 2:07-DV-2196-B-RGK, Memorandum and Order, Docket No. 7659/615 at 3 (C.D. Cal. June 6, 2013).

[14] Id. at 4.

[15] Commil at *3.

[16] Id. at *4.

[17] Id. at *4-5.

[18] Akamai, 692 F.3d at 1316.

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