
By Paul Wilson and Erin Sears

The issue of joint infringement of method patents has long been litigated. Where a claim covers multiple steps and no single party performs all of the steps claimed therein, it appeared to be well-settled that a party who performs some steps must “direct or control” the actions of the other entity or entities performing the remaining steps of the method patent, for joint infringement to exist. Then, in the 2006 decision of On Demand Machine Corp. v. Ingram Indus., the Federal Circuit endorsed a jury instruction that read, in pertinent part: “Where the infringement is the result of the participation and combined action(s) of one or more persons or entities, they are joint infringers and are jointly liable for the infringement.” (emphasis added). The patent community was stunned. Had the Federal Circuit displaced years of precedent in favor of a much looser standard of mere “participation and combined action?”

This was the very question facing the litigants in BMC Resources, Inc. v. Paymentech, L.P. The patents-in-issue in BMC claim a method for processing debit transactions without a personal identification number (PIN), and expressly require the combined action of several entities to perform the various steps of the claimed invention. Denying that it performed all of the steps claimed therein, Paymentech moved for and was granted summary judgment of non-infringement. The district court agreed with Paymentech that the Federal Circuit’s statement in On Demand was dicta. The Federal Circuit had not considered the relationship between the parties who purportedly performed the steps of the claimed invention because their actions otherwise did not amount to infringement, and thus approval of the jury instruction was not directly necessary to its decision in the case. The district court further concluded that the record evidence did not create a genuine issue of material fact that Paymentech directed or controlled the other entities that performed the remaining steps of the method claims. Insistent that “direct or control” is too demanding of a standard and that it is also inconsistent with On Demand, BMC nonetheless appealed.

At oral argument, the Federal Circuit seemed most interested in BMC’s assertion that the “direction or control” standard provides a loophole to avoid infringement. BMC argued that, absent a strict liability standard of joint infringement, an entity that performs one step of the method claim could enter into an arms-length contract with another entity to perform the remaining steps of the claim, but escape liability so long as the former did not “direct or control” the latter, or vice versa. Of course further widening the potential loophole was the ability to escape liability for contributory or inducing infringement, which can only exist if there is a predicate act of direct infringement.

The Federal Circuit ultimately affirmed the district court’s decision in favor of Paymentech. In the Federal Circuit’s opinion, proper claim drafting in which all of the claims focus on one entity obviates the need to broaden the scope of liability for joint infringement. The Federal Circuit also found the current “direct or control” standard flexible enough to potentially establish liability where more than one party was involved without creating a broader standard – such as one without a requirement of specific intent or knowledge of the acts of other entities – that would effectively nullify the purpose of indirect infringement under the Patent Act.

It is not known if BMC will appeal to the Supreme Court. In the interim, the BMC opinion provides guidance to
prosecutors and litigators alike on how to protect patent applicants, patentees and/or assignees from being left with claims that cannot be enforced against a single entity. Here are some tips:

- Draft claims from the perspective of a single entity, so the single entity performs every step of a method claim;

- Consider amending claims that have yet to issue or file a reissue request for patents that have already issued;

- Explore ways to establish “direction or control,” e.g., agency, alter ego, working in concert, contractual relationship, etc.; and

- Seek written and oral discovery to explore the depth of “direction or control” amongst the parties who perform the method claim steps, e.g., evidence of specifically contracting out a certain step, instructions on how to perform a certain step, monitoring the activities of one entity, ability to inspect another entity’s facilities, accounting requirements between entities, etc.


If you have any questions concerning this developing issue, please do not hesitate to contact Paul Wilson or Erin Sears:

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