

Finding The Mastermind In Joint Infringement Suits

February 2011

The Federal Circuit's recent decision in *Golden Hour Data Systems Inc. v. emsCharts Inc. and Softtech*¹ emphasizes the challenge companies faces when entering into partnerships (which have become increasingly common to save costs) where their joint product may be subject to a claim of patent infringement. While the traditional standard for infringements requires that the patentee find a single party liable for practicing each and every element of a patent claim, the Federal Circuit has held that an offending party cannot avoid liability by delegating out steps of a patented process to another entity.

In a situation involving joint infringement, the patentee must establish that one party directs and controls the partnership to attribute liability for the infringement to that party. Thus, companies entering into partnerships should consider the scope of possible individual liability for patent infringement in the event that the joint product is found to infringe. The recent Golden Hour decision provides valuable guidance for companies to assess their particular risk and allocate any potential liability.

Partnering Without Controlling or Directing

Golden Hour Data Systems Inc. was the assignee of US Patent No. 6,117,073 relating to a system for integrating billing, transport and clinical services modules for emergency

medical transportation services. The system attempted to streamline these services by integrating modules for tracking the dispatch and location of the emergency medical teams, managing the clinical diagnosis and treatment of the patient and billing the patient for services rendered. Softtech and emsCharts partnered to sell a joint product that allegedly practiced every element of the patent claims in question. EmsCharts produced a Web-based medical program that charted patient information and provided integrated billing. Softtech produced dispatch software that coordinated information for patient pickup, delivery and flight tracking. In an effort to remain competitive, the two companies enabled their two programs to work together and formed a partnership to sell the two programs as a single unit.

At trial, both parties presented evidence supporting their respective contentions as to whether a controlling and directing entity existed in the partnership. The defendants jointly argued that both entities were separate and collaborated through a nonexclusive distributorship agreement which specified that emsCharts received no rights to the Softtech Software other than the right to promote it as part of their partnered product.

Golden Hour sought to emphasize that emsCharts controlled and directed the relationship. For example, emsCharts had received payments for, and made sales on behalf of Softtech; the two entities



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1. No. 2009-1306, 1396 (Fed. Cir. Aug. 9, 2010). The Federal Circuit also vacated and remanded the trial court's holding that the patent was unenforceable for inequitable conduct due to an alleged failure to disclose material information.

A version of this article appeared in the December 2010 issue of *Law360*

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jointly submitted bids for projects; held joint sales and information sessions; delivered joint price quotes and issued a press release promoting their integrated system as a single product delivering “seamless transition” between the modules. Further, Softtech had filed cross-claims against emsCharts, dismissed before trial, accusing emsCharts of breaching its fiduciary duty. At trial, the jury returned a verdict of joint infringement finding that emsCharts and Softtech had jointly infringed Golden Hour’s patent.

However, the judge essentially nullified that verdict by granting a judgment as a matter of law in favor of both emsCharts and Softtech. The court held that there was insufficient evidence of “control or direction” by either entity to the extent that every step could be attributed to a controlling “mastermind.” The court rejected Golden Hour’s contention that evidence of joint sales and marketing and packaging of the joint product “imposed the types of duties and responsibilities upon Softtech that would support a finding of direction or control by emsCharts.” Relying on the Federal Circuit’s decision in BMC Resources Inc. v. Paymentech LP,² the court acknowledged that “the standard requiring control or direction for a finding of joint infringement may...allow parties to enter arm’s-length agreements to avoid infringement” but held that the concern did not warrant expanding the rules governing joint infringement.

The Federal Circuit subsequently affirmed the trial court’s decision to find in favor of emsCharts and Softtech with little discussion. In doing so, it reaffirmed the standard articulated earlier in BMC which similarly held that there could be no liability where there was no controlling entity in the partnership that directed and controlled the infringement.

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NYCDS/0211_1115

2. 498 F3d 1373 (Fed. Cir. 2007).