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Argument for Divided Infringement Goes Off the Rails

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The US Court of Appeals for the Federal Circuit found that divided infringement did not occur where claimed data processing was performed by a third party at defendant's request, and that lost profit damages can be established by proof of "general market demand for patented invention." *Georgetown Rail Equip. Co. v. Holland L.P.*, Case No. 16-2297 (Fed. Cir., Aug. 1, 2017) (Wallach, J).

Georgetown and Holland both offer services and technologies that perform automated inspection of railroad tracks. Georgetown sued Holland for patent infringement in 2013. Georgetown's patent claims a "system for inspecting a railroad track bed, including the railroad track, to be *mounted on a vehicle for movement along the railroad track*" that comprises (1) specific data collection equipment to collect images of the track, and (2) a processor to process and analyze the collected data.

At the district court, Holland argued that the phrase "mounted on a vehicle for movement along the railroad track" was a claim limitation, such that Holland's product, which does not have a processor capable of mounting on a vehicle, could not infringe. The district court rejected this claim interpretation and found that the preamble was not limiting because it did not recite essential structure, was not an antecedent basis for any claim terms and was not used during prosecution to distinguish the patent system.

Holland also argued that it did not have a processor to analyze the collected data. Holland's inspection service includes a vehicle that moves along the railroad track and collects images of the track, but that data is removed and processed by a third-party lab that had developed and implemented the processing software. Thus, Holland argued that it did not infringe because its services did not include the entire system mounted on a vehicle. The district court disagreed. Holland appealed.

The Federal Circuit concluded that the preamble language "mounted on a vehicle" was not an essential structure or step of the claim, was not essential to understanding limitations in the claim body, was not underscored as important in the specification and was not relied on during prosecution to overcome prior art. Even though the specification only described embodiments where the system was vehicle mounted, the Court rejected Holland's argument, citing the written description: "The computer analysis can be performed by the processing device . . . located on the inspection vehicle. *Alternatively*, the computer analysis can be performed by another computer system."

Citing its 2011 ruling in *Centillion v. Qwest*, the Federal Circuit also rejected Holland's argument that it could not infringe because it only used the part of the system related to data collection, and a third party (to whom Holland sent the collected data) used the processing part of the system. The Federal Circuit compared Holland to the consumers in *Centillion* and determined that while Holland sent the data information to the third party for processing and analysis, it exercised control of the processing part of the system. Just like the consumers in *Centillion*, Holland used and put the entire system into operation by collecting data and requesting that the data be processed. Without Holland's request, the processing would not be put into service.

Finally, the Federal Circuit upheld the jury's finding of willful infringement and award of lost profits, and the district's court denial of judgment as a matter of law (JMOL) on those issues. As for lost profits, the Court applied the venerable four-factor *Panduit* test, which in part requires a showing of "demand for the patented product." The Federal Circuit ruled that this "demand" did not require Georgetown to prove that third parties demanded Georgetown's product, but rather required proof of a general market demand for the patented technology, either Georgetown's or Holland's. The Court determined that Georgetown had submitted sufficient evidence to demonstrate this demand, and that Holland's arguments on lost profits and willful infringement improperly attempted to have the appellate court weigh the evidence. Accordingly, the Federal Circuit affirmed the district court's findings.

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