

Recent Changes to Divided Infringement

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Presentation Goals

Leave with an Understanding of Divided Infringement regarding:

- § Evolution of Doctrine
- § Method claims
- § Apparatus claims
- § Allegations involving Providers
- § Allegations involving Customers
- § Allegations involving Partnerships

**I) Background Information of
Divided Infringement**

**a.k.a. Non-infringement due to
divided action**

a.k.a. Joint Infringement

a.k.a. Split Infringement

Statutory Background: The Patent Act

- Direct infringement – 35 U.S.C. § 271(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.”
 - Section 271(a) has been interpreted by the Federal Circuit to require a showing that a “**single party**” has practiced each and every element of the claim. See *Muniauction, Inc. v. Thomson Corp.*, 532 F.3d 1318, 1329 (Fed. Cir. 2008) (method claims); *Centillion Data Sys., LLC v. Qwest Commc’ns Int’l, Inc.*, 2011 WL 167036, 631 F.3d 1279 (Fed. Cir. Jan. 20, 2011) (apparatus claims).

Background: Issue #1

Multiple Actors

- All allegations implicating **joint infringement** involve multiple actors, *i.e.*, no single party performs every step or uses every element of the apparatus.
 - Question: Because the statute requires a single defendant to make/use/etc. every element, what happens when a defendant practices less than all elements, with other element being practiced by another entity?
 - Question: Is there a difference between joint infringement of apparatus and method claims?

Background: Issue #2

What is “Use”?

- Even though the system or apparatus is not under the physical possession or custody of a single party, does the accused infringer still “use” the claimed invention under 35 U.S.C. §271(a)?
- Question: Is there a difference between joint infringement of apparatus and method claims?

II) Evolution of the Divided Infringement Doctrine pre-Federal Circuit cases

Evolution of Joint Infringement

- Joint Infringement has a long history, with early case law referencing agency principles:
 - 1) *Crowell v. Baker Oil Tools, Inc.*, 143 F.2d 1003, 1004 (9th Cir. 1944):
 - o “It is obvious that one may infringe a patent if he employ an **agent** for that purpose or have the offending articles manufactured for him by an independent contractor. We do not agree that it is necessary that appellant himself be a manufacturer of the alleged infringing devices or that he have machinery or manufacturing facilities or employees to make them or a written or an oral contract for supplies for such manufacture.”

Evolution of Joint Infringement

2) *Metal Film Co. v. Metlon Co.*, 316 F. Supp. 96, 110 n.12 (S.D.N.Y. 1970):

- “That defendants **choose** to have the vacuum metallizing, which was a conventional step (used, for example, in producing the Prindle laminated yarn), done by outside suppliers does not mitigate their infringement of the overall process.”

3) *Mobil Oil Corp. v. W.R. Grace & Co.*, 367 F. Supp. 207, 253 (D. Conn. 1973):

- “Defendant knew at the time it sold each of its accused catalysts that its customers would place the catalysts as sold by defendant into their catalytic cracking units Consequently, defendant was able to achieve all of the benefits described by the patents for heating or calcining, while at the same time foregoing the necessity of itself having to undergo the expense of carrying it out. In this respect, defendant, in effect, made each of its customers its **agent** in completing the infringement step, knowing full well that the infringement step would in fact be promptly and fully completed by those customers.”

Evolution of Joint Infringement

- 4) *Shields v. Halliburton Co.*, 493 F.Supp. 1376, 1389 (W.D.La.1980).
- Actual knowledge of the patent since 1974, accused of infringing use starting in 1977.
 - Defendants argued that there was no evidence that they performed the first step of the method claim (“sealing”). Defendants worked together to perform the other steps.
 - “When infringement results from the participation and combined action of several parties, they are all joint infringers and jointly liable for patent infringement.”

III) The Federal Circuit's Approach

Federal Circuit: Background

- 1) *Fromson v. Advance Offset Plate, Inc.*, 720 F.2d 1565, 1568 (Fed. Cir. 1983):
 - Stating without analysis that “[b]ecause the claims include the application of a diazo coating or other light sensitive layer and because Advance's customers, not Advance, applied the diazo coating, Advance cannot be liable for direct infringement with respect to those plates but could be liable for contributory infringement.”

- 2) *Pellegrini v. Analog Devices, Inc.*, 375 F.3d 1113, 1118 (Fed. Cir. 2004):
 - Briefly stating that “one cannot escape liability for infringement as a manufacturer of infringing products simply by employing an agent or independent contractor to carry out the actual physical manufacturing.”

Federal Circuit: Background

3) *Cross Med. Prods., Inc. v. Medtronic Sofamor Danek, Inc.*, 424 F.3d 1293, 1311 (Fed. Cir 2005):

- Looking to whether surgeons were “agents” of a medical devices company.

4) *On Demand Mach. Corp. v. Ingram Indus., Inc.*, 442 F.3d 1331, 1344–45 (Fed. Cir. 2006):

- Court reversed jury verdict based on improper claim construction, but could “discern no flaw” in the following jury instruction:
 - o “It is not necessary for the acts that constitute infringement to be performed by one person or entity. When infringement results from the participation and combined action(s) of more than one person or entity, they are all joint infringers and jointly liable for patent infringement. Infringement of a patented process or method cannot be avoided by having another perform one step of the process or method. 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.”

Case 1: *BMC Resources*

- Finally, in *BMC Resources, Inc. v. Paymentech, L.P.*, 498 F.3d 1373 (Fed. Cir. 2007), the Federal Circuit extensively addressed joint infringement.
- Facts:
 - BMC sued Paymentech for infringement of its patents directed to methods of processing debit transactions without using a PIN.
 - Paymentech’s process involved several entities:
 - a) A customer with a debit card;
 - b) A merchant attempting to sell a product to the customer;
 - c) A debit network;
 - d) A financial institution at which the customer has an account; and
 - e) Paymentech.

Case 1: *BMC Resources*

- The Federal Circuit rejected the notion that having “some relationship” between the accused parties is sufficient.
- Instead, the Federal Circuit affirmed a finding of no joint infringement because:
 1. BMC had not shown that Paymentech:
 - “controls or directs the activity of” the accused joint infringer; or
 - “provides instructions or directions” to the accused joint infringer.
 2. BMC had shown “no evidence even of a contractual relationship between” the accused joint infringers.
 3. In short, Paymentech was not, as the Court put it, the “mastermind” behind the endeavor. *Id.* at 1381 (citing *Shields v. Halliburton Co.*, 493 F.Supp. 1376, 1389 (W.D. La. 1980)).
- The Court also referred, in passing, to the Restatement (Second) of Agency, as will be discussed further.

Case 1: *BMC Resources*

- Policy implications of *BMC Resources*?
 - 1) The Federal Circuit acknowledged that “the standard requiring control or direction for a finding of joint infringement may in some circumstances allow parties to enter into arms-length agreements to avoid infringement.”
 - 2) The Court noted, however, the importance of not judicially expanding the direct infringement statute, given that Congress has already provided for liability for indirect infringement under particular statutory standards.
 - 3) “The concerns over a party avoiding infringement by arms-length cooperation can usually be offset by proper claim drafting. A patentee can usually structure a claim to capture infringement by a single party.”

Case 1: *BMC Resources*

- How does the analysis in *BMC Resources* apply to apparatus claims?
 - *BMC* mentioned apparatus claims in passing in discussing joint infringement precedent from *Cross Medical*, but only method claims were actually at issue in *BMC*.

Case 2: *Muniauction*

- In *Muniauction, Inc. v. Thomson Corp.*, 532 F.3d 1318 (Fed. Cir. 2008), the Federal Circuit again addressed joint infringement.
- Facts:
 - Muniauction sued Thomson for infringing its patent directed to methods of selling municipal bonds in an auction over a network.
 - No single party performed every step of the asserted claims.
 - o “For example, at least the inputting step of claim 1 is completed by the bidder, whereas at least a majority of the remaining steps are performed by the auctioneer’s system”
 - The District Court, writing prior to *BMC Resources*, had upheld a jury verdict of joint infringement on the ground that there was sufficient evidence of “the required connection between defendants” in light of Thomson charging a fee to the bidders and Thomson “facilitat[ing] auctions” for issuers.

Case 2: *Muniauction*

- The Federal Circuit in *Muniauction* set out the following legal principles in light of *BMC Resources*:
 - 1) “[D]irect infringement requires a single party to perform every step of a claimed method.” 532 F.3d at 1329.
 - 2) “[A] defendant cannot thus avoid liability for direct infringement by having someone else carry out one or more of the claimed steps on its behalf.” *Id.*
 - 3) “[W]here the actions of multiple parties combine to perform every step of a claimed method, the claim is directly infringed only if one party exercises ‘control or direction’ over the entire process such that every step is attributable to the controlling party, i.e., the ‘**mastermind.**’” *Id.* (emphasis added).
 - 4) “At the other end of this multi-party spectrum, mere ‘arms-length cooperation’ will not give rise to direct infringement by any party.”

Case 2: *Muniauction*

- Like in *BMC*, the Federal Circuit referenced vicarious liability, holding:
 - “[u]nder *BMC Resources*, the control or direction standard is satisfied in situations where the law would traditionally hold the accused direct infringer *vicariously liable* for the acts committed by another party that are required to complete performance of a claimed method.” *Id.* at 1330.
 - “Thomson neither performed every step of the claimed methods nor had another party perform steps on its behalf,” and “*Muniauction* ha[d] identified no legal theory under which Thomson might be vicariously liable for the actions of the bidders.”

Case 2: *Muniauction*

- **What is the significance of *Muniauction*'s reference to vicarious liability?**
 - *BMC Resources* had explicitly cited the Restatement (Second) of Agency in explaining what constitutes “control,” although the reference was in passing.
 - By analyzing vicarious liability, *Muniauction* suggested that agency law provides the basis for determining when another entity's actions count toward joint infringement.
 - The analysis regarding why and the extent to which agency law should apply is somewhat minimal in *BMC Resources* and *Muniauction*.

Case 2: *Muniauction*

- Again, how does the analysis in *Muniauction* apply to apparatus claims? (Only method claims were at issue).

Case 3: *Golden Hour*

- In *Golden Hour Data Systems, Inc. v. emsCharts, Inc.*, 614 F.3d 1367 (Fed. Cir. 2010), the issue of joint infringement arose once again.
- Facts:
 - emsCharts produced a web-based medical charting program that integrated billing.
 - Softtech produced a flight dispatch program that coordinated flights information (e.g. patient pickup & delivery, and flight tracking).
 - emsCharts & Softtech formed a strategic partnership.
 - Golden Hour accused the two of joint infringement of system and method claims

Case 3: *Golden Hour*

- The Federal Circuit’s discussion of the doctrine was very brief (two paragraphs). The Court held:
 - 1) “[T]he evidence here was insufficient for jury to infer control or direction. We see no need for extended discussion of this issue and we affirm the district court’s grant of JMOL as to the process claims the jury found to be jointly infringed. . . .” and
 - 2) “JMOL was **properly granted as to the systems claims** as well as to the process claims.”
 - not wholly determinative regarding multiple actors and system claims because Plaintiff had only submitted the issue under the theory of joint infringement

Case 4: *SiRF Technology, Inc.*

- *SiRF Technology, Inc. v. ITC*, 601 F.3d 1319 (Fed. Cir. 2010), SIRF was accused of directly infringing method claims which require “end-users” to use GPS devices.
- Facts
 - SIRF developed, manufactured, and sold GPS chips which are then incorporated into end-user GPS receivers
 - SIRF software is embedded in certain SIRF chips to calculate positional information for the GPS receiver
 - SIRF also uses servers to provide data to end-user GPS receivers
 - The ITC found SIRF directly infringed certain claims and that “SIRF exercises control over end users of the GPS receivers so as to cause infringement”

Case 4: *SiRF Technology, Inc.*

- Claims
 - A method of receiving global positioning system (GPS) satellite signals comprising
 - A method of creating and distributing compact satellite orbit models comprising
- The Federal Circuit found:
 - We do not reach the question of joint infringement because ***we do not read the relevant claims as requiring that any of the specified actions be taken by SiRF's customers or by the end users*** of the GPS devices. This is not a situation where a method claim specifies performance of a step by a third party, or in which a third party actually performs some of the designated steps, and thus control or direction of the performance of that step by the accused infringer is required. Rather, ***the method claims at issue here are drawn to actions which can be performed and are performed by a single party***. As they do not require that any of the steps be performed here by the customers or the end users, and the disputed steps are not in fact performed by third parties, we conclude that SiRF directly infringes.

Id. at 1329.

Case 5: Akamai

- *Akamai Tech., Inc. v. Limelight Networks, Inc.*, 629 F.3d 1311 (Fed. Cir. 2010)
- Facts:
 - Patent covering methods of online content delivery. Instead of having the data for a webpage stored in one physical spot, the patent covers enabling the download of a webpage's embedded objects from a network of locations.
 - One of the steps in the asserted method claims requires "tagging the embedded objects of the page." At trial, it was an undisputed fact that Limelight's customers perform this step.
 - Jury found direct infringement of certain method claims. D.Ct. denied JMOL based on *BMC*. The district court then granted request for reconsideration of JMOL of noninfringement based on *Muniauction*.

Case 5: *Akamai*

- Specifically, *Akamai* noted that:

“While the ‘control or direction’ test of *BMC Resources* established a foundational basis on which to determine liability for direct infringement of method claims by joint parties, it left ***several questions unanswered***, including the question of whether the furnishing of instructions is sufficient to attribute the actions of the instructed party to the accused.”

Slip Op. at 12 (emphasis added).

Case 5: *Akamai*

- Construing the *Muniauction* decision, *Akamai* held that “*Muniauction* addressed the question about instructions and, in concluding that the instructions in that case were not enough, reiterated the notion of **vicarious liability** mentioned in *BMC Resources*.” Slip Op. at 12 (emphasis added).
- Finally, the *Akamai* Court clarified that the driving, “implicit” force behind *BMC* and *Muniauction* was agency law:

“Implicit in this court’s holdings in *BMC Resources* and *Muniauction* is that the performance of a method step may be attributed to an accused infringer when the relationship between the accused infringer and another party performing a method step is **that of principal and agent**, applying **generally accepted principles of the law of agency** as explicated by the Supreme Court and the Restatement of Agency.

Slip Op. at 13 (emphasis added).

Case 5: Akamai

- **What does applying agency law mean?**
 - Agency generally, as defined by the Restatement:
§ 1.01 Agency Defined
Agency is the fiduciary relationship that arises when one person (a 'principal') manifests assent to another person (an 'agent') that the agent shall act on the principal's behalf and subject to the principal's control, and the agent manifests assent or otherwise consents so to act.
Restatement (Third) of Agency § 1.01 (2006).
 - The Restatement (Third) of Agency sets out general principles for determining whether the agency standard has been met.
 - Agency law is complex subject unto itself (aside from the addition of patent law).

Case 5: *Akamai*

- The *Akamai* panel did not end its decision simply by citing to agency law and the Supreme Court’s interpretation thereof, perhaps to “catch” *Halliburton*-type cases. Instead, the court added a “contractual obligation” standard:

“In assessing infringement based on the actions of joint parties, it is not enough to determine for whose benefit the actions serve, for in any relationship there may be benefits that inure in some respects to both parties. This court therefore holds as a matter of Federal Circuit law that there can only be joint infringement when there is ***an agency relationship*** between the parties who perform the method steps ***or*** when one party is ***contractually obligated*** to the other to perform the steps.”

Slip Op. at 14 (emphasis added).

Case 5: *Akamai*

- Holdings:
 - There can only be joint infringement of a method claim:
 - 1) when there is **an agency relationship** between the parties who perform the method steps or
 - 2) when one party is **contractually obligated** to the other to perform the steps.
 - There is no joint infringement of a method claim by Providers, because Providers are not vicariously liable for the actions of customers.

Case 5: *Akamai*

- The Federal Circuit seems to have attempted to reconcile the *BMC Resources* “control or direction” test with Supreme Court precedent regarding the applicability of agency law absent evidence of contrary Congressional intent.
 - See *Meyer v. Holley*, 537 U.S. 280 (2003).
 - o In *Meyer*, the Supreme Court analyzed a civil rights statute providing a cause of action that was, “in effect, a tort action.” *Id.* at 285.
 - o The Court noted that “[i]t is well established that traditional vicarious liability rules ordinarily make principals or employers vicariously liable for acts of their agents or employees in the scope of their authority or employment.” *Id.*
 - o The Court then held that “[w]here Congress, in other civil rights statutes, has not expressed a contrary intent, the Court has drawn the inference that it intended ordinary rules to apply,” and explained that “Congress wanted courts to look to agency principles for guidance.” *Id.* at 287 (quotation marks omitted).

Case 5: *Akamai*

- Using almost the same language as *Meyer*, the Supreme Court has already held that “[i]nfringement, whether direct or contributory, is essentially a tort.” *Carbice Corp. of Am. v. Am. Patents Dev. Corp.*, 283 U.S. 27, 33 (1931).
- Following the recent guidance that patent law is not exempt from generally-applicable legal doctrines, the Supreme Court might apply *Meyer* and note that the statutory cause of action for direct infringement, 35 U.S.C. § 271(a), has been “legislate[d] against a legal background of ordinary tort-related vicarious liability rules” and that Congress “consequently intends its legislation to incorporate those rules,” *Meyer*, 537 U.S. at 285.
- Any reading of § 271(a) that would encompass “more extensive vicarious liability” that goes “well beyond traditional principles,” see *id.* at 286, might be reversed, as occurred in *Meyer*.

Case 5: *Akamai*

Remaining Issues after *Akamai*:

- Plaintiff waived indirect infringement allegations,
 - Does the customers' contract with Akamai mean that customers are direct infringers?
- Again, how does the analysis in *Akamai* apply to apparatus claims?

Case 6: Centillion

- Finally, in *Centillion Data Systems, LLC v. Qwest Communications International, Inc.*, 2011 WL 167036, **631 F.3d 1279** (Fed. Cir. Jan. 20, 2011), the Federal Circuit addressed allegations of joint infringement of **apparatus** claims.
- Facts:
 - Claims require back-end processing by telephone service provider and end-user software processing of telephone call data
 - Only apparatus claims at issue
 - D.Ct. granted summary judgment of non-infringement based on “use” in *NTP v. RIM* in light of *BMC*.

Case 6: Centillion – “use”

- *NTP, Inc. v. Research in Motion, Ltd.*, 418 F.3d 1282 (Fed. Cir. 2005)
 - Method & Apparatus claims asserted
 - Involved email relay servers located in Canada (situs).
 - Situs of “use” of a apparatus is different from a method.
 - o Federal Circuit found non-infringement of method claims because the “use” was not in the United States as required by 35 U.S.C. § 271(a).
- The Federal Circuit defined the situs of **use** of an apparatus claim as “put[ting] the system into service, i.e., . . . exercis[ing] control over, and benefit[ting] from, the system’s application.”

Case 6: Centillion – “use”

- Even though *NTP* dealt with the situs of “use”, the same definition applies for infringement:
 - “We hold that to ‘use’ a system for purposes of infringement, a party must put the invention into service, *i.e.*, **control** the system as a whole and obtain benefit from it.” Slip. Op. at 8 (emphasis added).
- Control further defined
 - “The ‘control’ contemplated in *NTP* is the ability to place the system as a whole into service. In other words, the customer in *NTP* remotely ‘controlled’ the system by simply transmitting a message. . . . It did not matter that the user did not have physical control over the [claim element], the user made them work for their patented purpose, and thus ‘used’ every element of the system by putting every element collectively into service.” Slip Op. at 8-9.

Case 6: Centillion – Providers and “use”

- PROVIDER: The Federal Circuit upheld finding of non-infringement by Qwest.
 - Does not “use” every element of the claim.
 - o “As a matter of law, it does not ‘use’ the patented invention under the appropriate test from *NTP*.... Because it never puts into service the personal computer data processing means. Supplying the software for the customer to use is not the same as using the system.” Slip Op. at 12.
 - No divided infringement
 - o Customer is not agent, nor contractually obligated to perform, under *Akamai*. Slip Op. at 14.
 - o “Qwest in no way directs its customers to perform nor do its customers act as its agents. While Qwest provides software and technical assistance, it is entirely the decision of the customer whether to install and operate this software on its personal computer data processing means.” Slip Op. at 14.

Case 6: Centillion – Customers and “use”

- CUSTOMER: The Federal Circuit vacated & remanded finding of non-infringement by Qwest’s customers.
 - Qwest’s customers have two ways to access data.
 - 1) On-Demand: the customer creates a query and Qwest’s back-end processes to provide a result
 - 2) Normal Operation: Customer subscribes, Qwest’s system then automatically creates periodic summary reports that are available for download

Case 6: Centillion – Customers and “use”

- “On-Demand operation is a ‘use’ of the system as a matter of law.” Slip Op. at 10.
 - “The customer puts the system as a whole into service, *i.e.*, controls the system and obtains benefit from it.”
 - “If the user did not make the [on-demand] request, then the back-end processing would not be put into service.”
 - “It makes no difference that the back-end processing is physically possessed by Qwest. The customer is a single ‘user’ of the system and because there is a single user, there is no need for the vicarious liability analysis.”

Case 6: Centillion – Customers and “use”

- “Standard operation is a ‘use’ as a matter of law.” Slip Op. at 10.
 - “By subscribing a single time, the user **causes** the back-end processing to perform its function on a monthly basis. Like the on-demand operation, the back-end processing is performed **in response to** a customer demand.” Slip Op. at 11 (emphasis added).
 - “In both modes of operation, it is the customer initiated demand for the service which **causes** the back-end system to generate the requisite reports. This is ‘use’ because **but for** the customer’s actions, the entire system would never have been put into service. This is **sufficient control** over the system under *NTP*, and the customer clearly benefits from this function.” *Id.*
- The key language “causes,” “in response to,” “but for” appear to be a way to distinguish, except that “sufficient” may leave open the possibility of lesser control satisfying the test.

IV) Summary of the recent changes to divided infringement

Divided Infringement Summary

– Method Claims

- “Use” requires single infringer to physically perform each step.
- Single infringer can be held liable for another’s actions under test for Divided Infringement:
 - [1] when there is **an agency relationship** between the parties who perform the method steps or
 - [2] when one party is **contractually obligated** to the other to perform the steps.
- Provider
- Partnerships (be wary of *Halliburton*-type contractual obligation)
- Customer (be wary of contract)

Divided Infringement Summary

– Apparatus Claims

- Direct Infringement - “Use” requires single infringer to put “the system as a whole into service, i.e., control[] the system and obtain[] benefit from it.”
- Divided Infringement - Single infringer can be held liable for another’s actions under test for Divided Infringement.
 - [1] when there is **an agency relationship** between the parties who perform the method steps or
 - [2] when one party is **contractually obligated** to the other to perform the steps.
- Provider
- Customer (“causes,” “in response to,” “but for”)
- Partnerships (probably similar to customer)

V) Strategies for handling the issue of divided infringement

Patentee Strategies

- 1) Going forward, draft claims that require a single entity, regardless of whether they are method or apparatus claims (consider reissue).
- 2) Showing an agency relationship (assent, benefit, and control) is the gold standard for establishing joint infringement.
 - Consider citing and applying the Restatement.
- 3) Argue, in the alternative:
 - direct infringement by one entity (*e.g.*, testing).
 - direct infringement by the end-user, and indirect infringement by the supplier
- 4) If the agency battle cannot be won—itsself involving a large body of law ripe for litigation, patentees may seek to litigate the “contractual obligation” standard of *Akamai* and try to fit into that remaining loose language.

Accused Infringer Strategies

- 1) Seek to hold patentees to the agency standard set out in *Akamai* and seek claim constructions that force two entities into the claim.
- 2) Challenge whether the patentee's evidence rises to the level of agency (assent, benefit, and control) by employing the Restatement and Supreme Court precedent regarding agency.
- 3) Argue that the “contractual obligation” language of *Akamai* is extremely limited. Attempt to distinguish the contract from the specifically claimed steps.
- 4) When negotiating contracts with third parties that may relate to this area, if possible, avoid language that evidences assent, benefit, and control – allow room for independent work.

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