

Joint Patent Infringement⁺

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I. INTRODUCTION

Two opinions have issued from the United States Court of Appeals for the Federal Circuit in the past two years that are critical to the issue of whether a single party may be held liable for patent infringement when separate acts that, when combined, together constitute infringement are conducted by multiple actors. Neither case, though, has established a bright-line rule to aid practitioners both in the patent litigation and patent prosecution context. Rather, the opinions raised as many questions as they answered.

In this paper, we focus on the Federal Circuit's analysis of the joint infringement issue. We also address how lower courts have applied the Federal Circuit's rulings, and the implications those rulings could have in the context of patent litigation, claim drafting, and contracting.

II. JOINT INFRINGEMENT

A. The Conflict

Generally, a patent owner may preclude others from obtaining the benefits of a device or process described in the claims of the patent. 35 U.S.C. § 271. A patent owner also may preclude others from inducing another to infringe the claims of the patent, or contribute to another parties' infringement. Collectively, contributory infringement and induced infringement are referred to as indirect infringement. But indirect infringement is limited: "[i]ndirect infringement requires, as a predicate, a finding that some party amongst the accused actors has committed the entire act of direct infringement." *Dyanacore Holdings Corp. v. U.S. Philips Corp.*, 363 F. 3d 1263, 1272 (Fed. Cir. 2004). "[D]irect infringement requires a single party to perform every step of a claimed method." *Muniauction, Inc. v. Thomson Corp.*, 532 F. 3d 1318, 1329 (Fed. Cir. 2008).

Until recently, however, the application of this limitation on indirect infringement seemed to allow a finding of direct infringement even where multiple parties performed the act of infringement. In *On Demand Machine Corp. v. Ingram Industries, Inc.*, 442 F. 3d 1331 (Fed. Cir. 2006), for example, the Federal Circuit found no flaw in the following jury instruction:

It is not necessary for the acts that constitute infringement to be performed by one person or entity. When infringement results from 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.

Though the Federal Circuit's approval of this jury instruction arguably was *dicta*, plaintiffs often cited *On Demand Machine Corp.* as support for indirect infringement in joint infringement cases.

The Federal Circuit sought to address this inconsistency in two rulings: *BMC Resources v. Paymentech*, 498 F. 3d 1373 (Fed. Cir. 2007), and *Muniauction, Inc. v. Thomson Corp.*, 532 F.

3d 1318 (Fed. Cir. 2008). Ultimately, the court appears to have significantly narrowed the circumstances under which a patent plaintiff may assert joint infringement, but failed to provide a bright-line test to determine whether infringement exists.

B. *BMC Resources v. Paymentech*

In *BMC Resources v. Paymentech*, the plaintiff alleged that Paymentech infringed a patent that provided an interface between a standard touch-tone telephone and a debit card network. *Paymentech*, 498 F. 3d at 1375. The method claims covered methods for processing debit transactions between a merchant and a customer using a touch-tone telephone without using a PIN. *Id.* Asserted claim 6 of the '456 patent reads:

6. A method of paying bills using a telecommunications network line connectable to at least one remote payment card network via a payee's agent's system wherein a caller begins session using a telecommunications network line to initiate a spontaneous payment transaction to payee, the method comprising the steps of:

prompting the caller to enter a payment number from one or more choices of credit or debit forms of payment;

prompting the caller to enter a payment amount for the payment transaction;

accessing a remote payment network associated with the entered payment number;

the accessed remote payment network determining, during the session, whether sufficient available credit or funds exist in an account associated with the payment number to complete the payment transaction;

and upon a determination that sufficient available credit or funds exist in the associated account;

charging the entered payment amount against the account with the entered payment number;

adding the entered payment amount to an account associated with the entered account number; and

storing the account number, payment number and payment amount in a transaction file of the system.

Infringement required action by three parties: the company offering the PIN-less debit payment services (Paymentech), a debit network, and a financial institution. *Id.* The parties agreed that other parties -- not Paymentech -- performed at least three steps of the patented process. *Id.* at 1378.

Paymentech moved for summary judgment of non-infringement on the ground that it did not perform every step of the patented process. The district court granted the motion, finding that Paymentech did not perform every step, nor direct or control any other party that performed certain steps. *Id.* The Federal Circuit affirmed, explaining that BMC failed to submit evidence to prove that “sufficient connection” existed “between Paymentech and the financial institutions.” *Id.* While BMC offered evidence that Paymentech provided data, including debit card numbers, names, amounts of purchase, etc., to debit networks, BMC failed to offer any evidence that Paymentech “also provide[d] instructions or directions regarding the use of those data.” *Id.* at 1381. Thus, “[a]lthough BMC proffered evidence to establish some relationship between Paymentech and the debit networks . . . this evidence was insufficient to create a genuine issue of material fact as to whether Paymentech controls or directs the activity of the debit networks.” *Id.*

On appeal, the Federal Circuit took the opportunity *en banc* to clarify the “proper standard for joint infringement by multiple parties of a single claim.” *Id.* at 1378. The court first confirmed the well-known rule that “[d]irect infringement requires a party to perform or use each and every step or element of a claimed method or product.” *Id.* at 1381. It further noted that vicarious liability may be imposed “[w]hen a defendant participates in or encourages infringement but does not directly infringe a patent.” *Id.* at 1379.¹ In that situation, the

¹ The *Paymentech* court cited the Restatement (Second) of Agency § 220, comment d, with approval. 438 F. 3d at 1379. Comment d states:

d. Control or right to control. Although control or right to control the physical conduct of the person giving service is important and in many situations is determinative, the control or right to control needed to establish the relation of master and servant may be very attenuated. In some types of cases which involve persons customarily considered as servants, there may even be an understanding that the employer shall not exercise control. Thus, the full-time cook is regarded as a servant although it is understood that the employer will exercise no control over the cooking. In other types of situations where an emergency creates peril to human lives, as in the case of a ship in a storm, a servant--in this case the captain--might properly refuse to be controlled by the ship owner and still cause his master to be liable for his negligence or other faulty conduct.

When two persons are engaged in a common undertaking, it may be understood that there is to be joint control, as where two men hire an automobile for a vacation trip, alternating in driving. On the other hand, two servants, directed to drive on their master's business and alternating in driving, do not agree to joint control, and one of them would not be liable to a person hurt by the negligent driving of the other.

Where the owner of a vehicle driven by a guest is in the vehicle, there is ordinarily an inference that he is in control, rebuttable only if he agrees with the guest to surrender complete control to him.

Notably, comment e to § 220 refers to independent contractors, explaining that their principals ordinarily are not liable for their acts:

The important distinction is between service in which the actor's physical activities and his time are surrendered to the control of the master, and service under an agreement to accomplish results or to use care and skill in accomplishing results. Those rendering service but retaining control over the manner of doing it are not servants.

Restatement (Second) of Agency § 220, comment e.

principles of indirect infringement apply, which require “as a predicate, a finding that some party amongst the accused actors has committed the entire act of direct infringement.” *Id.*

The court acknowledged that the rules for vicarious liability “might seem to provide a loophole for a party to escape infringement by having a third party carry out one or more of the claimed steps on its behalf.” *Id.* The court rejected such criticisms, though, explaining that “[a] party cannot avoid infringement, however, simply by contracting out steps of a patented process to another entity.” *Id.* at 1381. In such cases, “the party in control would be liable for direct infringement” because “[i]t would be unfair indeed for the mastermind in such situations to escape liability.” *Id.*

The court further acknowledged that the requirement of “control or direction” may “allow parties to enter into arms-length agreements to avoid infringement.” *Id.* The court considered that an acceptable consequence resulting from the statutory scheme providing for direct and indirect infringement. The court explained:

For example, expanding the rules governing direct infringement to reach independent conduct of multiple actors would subvert the statutory scheme for indirect infringement. Direct infringement is a strict-liability offense, but it is limited to those who practice each and every element of the claimed invention. By contrast, indirect liability requires evidence of “specific intent” to induce infringement. Another form of indirect infringement, contributory infringement under § 271(c), also requires a *mens rea* (knowledge) and is limited to sales of components or materials without substantial noninfringing uses. Under BMC's proposed approach, a patentee would rarely, if ever, need to bring a claim for indirect infringement.

Id. at 1379. The court also believed that “concerns over a party avoiding infringement by arms-length cooperation can usually be offset by proper claim drafting” because “[a] patentee can usually structure a claim to capture infringement by a single party.” *Id.* at 1381.

Because little evidence was presented of the relationship between the various so-called joint infringers, *Paymentech* left open the question of what type of relationship would be sufficient to establish infringement. Would a contract between the various actors lead to a different result? Or would additional evidence, beyond the existence of a mere contract, be required?

C. *Muniauction, Inc. v. Thomson Corp.*

The Federal Circuit again considered the issue of joint infringement in *Muniauction, Inc. v. Thomson Corp.*, addressing claims related to the ‘099 patent, which was directed to original issuer municipal bond auctions over the internet. 532 F. 3d at 1321. Claim 1 stated:

1. In an electronic auction system including an issuer’s computer having a display and at least one bidder’s computer having an input device and a display, said bidder’s computer being located remotely from said issuer’s computer, said

computers being coupled to at least one electronic network for communicating data messages between said computers, an electronic auctioning process for auctioning fixed income financial instruments comprising:

inputting data associated with at least one bid for at least one fixed income financial instrument into said bidder's computer via said input device;

automatically computing at least one interest cost value based at least in part on said inputted data, said automatically computed interest cost value specifying a rate representing borrowing cost associated with at least one fixed income financial instrument;

submitting said bid by transmitting at least some of said inputted data from said bidder's computer over said at least one electronic network; and

communicating at least one message associated with said submitted bid to said issuer's computer over said at least one electronic network and displaying, on said issuer's computer display, information associated with said bid including said computed interest cost value;

wherein at least one of the inputting step, the automatically computing step, the submitting step, the communicating step and the displaying step is performed using a web browser.

The first step in the process, "inputting data", was performed by the bidder, but the remaining steps were performed by the defendant auctioneer's system. *Id.* at 1329. The question before the court was whether the actions of the bidder and auctioneer could be combined for a finding of direct infringement.

The Court applied the "control or direct" test announced in *BMC Resources v. Paymentech* to reject the jury instruction given by the trial court on the issue of joint infringement for failing to meet the "control or direct" test. The jury instruction stated:

Consider whether the parties are acting jointly or together in relation to the electronic auction process. Are they aware of each other's existence and interacting with each other in relation to the electronic auction process? Is there one party teaching, instructing, or facilitating the other party's participation in the electronic auction process? These are the types of questions that you should ask in making your decision on this issue. If you find that there is a sufficient connection between Thomson and the bidders and the issuers that used Thomson's process, then you could find Thomson liable for direct infringement.

Muniauction, 532 F. 3d at 1329. The court rejected the instruction because it focused too much on the relationship between the parties, rather than on whether the defendant auctioneer directed or controlled the bidders' conduct. *Id.* at 1329-30.

Going further, the Federal Circuit found no infringement, reaffirming that “control or direction” could be proven only “in situations where the law would traditionally hold the accused direct infringer vicariously liable for the acts committed by [the others].” *Id.* at 1330. Evidence that Thomson provided access to its bidding system and instructed its customers how to use that system failed to meet that test. The court explained that Thomson “neither performed every step of the claimed methods nor had another party perform steps on its behalf.” *Id.*

D. District Court Decisions

The manner in which district courts have applied the *Paymentech* and *Muniauction* decisions evinces a significant narrowing of the situations in which indirect infringement will be found when more than one actor performs the steps of an asserted patent claim.

1. Gammino v. Cellco Partnership -- Summary Judgment Motion

In *Gammino v. Cellco Partnership*, 527 F. Supp. 2d 395 (E.D. Pa. 2007), the district court applied *Paymentech* to grant the defendants’ motion for summary judgment of non-infringement. The plaintiff asserted two patents, which were processes and apparatuses for preventing telephones from making international calls. *Gammino*, 527 F. Supp. 2d at 396. Both involved means of recognizing and disconnecting phone calls commenced with dialing sequences that typically correspond to international calls. *Id.* The court found that a defendant, Davel, did not perform the specific claimed step of evaluating the dialing sequences to determine if the sequence is blocked. *Gammino*, 527 F. Supp. 2d at 398. Rather, a local provider performed this step, and Davel was not aware of how it did so. *Id.*

Gammino’s primary evidence in this case consists of tests that show that Davel’s pay telephones successfully block calls made using the dialing sequences that Gammino’s methods block. Even if this evidence is (marginally) probative that someone infringes Gammino’s patent, it does not support the conclusion that Davel is the infringing party, particularly in light of the unrebutted evidence that Davel does not know how the call-blocking features it purchases work.

Id. at 398-99. Because of the lack of control or direction on the part of Davel, the court granted summary judgment in Defendant Davel’s favor. *Id.*

Applying *Paymentech*, the *Gammino* court understood the direction or control requirement to require more than a mere contract between the parties. The *Gammino* court would require that the defendant direct or control the “how” of the missing step. Without knowledge of the provider’s methods, the defendant could not possibly have controlled those same methods. The court did not state as much, but the *how* interpretation of the control test may flow from the *how* language included in the claim itself. If infringement requires that a step be performed a particular way, a finding of joint infringement may require that the control step also extend to how the step is performed.

2. TGIP v. AT&T -- JMOL Motion

In *TGIP, Inc. v. AT&T Corp.*, 527 F. Supp. 2d 561 (E.D. Tex. 2007), the court considered a motion for judgment as a matter of law after a jury verdict of infringement. The *Paymentech* decision issued after the jury's verdict, but before significant post-verdict briefing.

The patents at issue related to a prepaid calling card system having a remote terminal to provide on-site activation and re-charging of calling cards. *TGIP*, 527 F. Supp. 2d at 568. AT&T asserted that other systems (West Interactive and A.P.T.) provided the activation platform and that retailers (like Wal-Mart) provided the data terminals. *Id.* at 577. AT&T argued that a finding of non-infringement was warranted because, applying *Paymentech*, there was no evidence that AT&T directed or controlled the third parties who performed steps essential to any finding of non-infringement. *Id.*

The court disagreed,² finding that TGIP presented evidence that AT&T “controlled or directed” the third parties. According to the court, that evidence included:

- AT&T's corporate representative testified that “West acted on behalf of AT&T”;
- AT&T provided specifications to each of its retailers directing the retailers on the processes for sending an activation message to AT&T;
- AT&T expected the information received from its retailers to be in a certain format; and
- AT&T defined its requirements in AT&T's technical plan, indicating what was necessary in order for AT&T to provide its services to retailers.

This decision was entered without the benefit of the *Muniauction* decision, and should be considered in that light. This is especially so, considering the jury instruction on joint infringement that was used in *TGIP*:

It's not necessary for the acts that constitute infringement to be performed by one person or entity. When the infringement results from the participation and combined actions of two or more persons or entities which have some connection with each other, such as an agreement to work together or a partnership or the ability of one to control another, then they are all joint infringers and jointly liable for patent infringement. Infringement of a patented method cannot be avoided by a connected person or entity having another connected person or entity perform one or more steps of the method.

TGIP, Inc. v. AT&T Corp., Docket 2:06CV105 Trial Transcript (E.D. Tex. September 14, 2007).

² The court ultimately entered a finding of non-infringement on other reasons. *TGIP*, 527 F. Supp. 2d at 578.

While mentioning “the ability of one to control another,” the instruction arguably does not meet the requirements of *Paymentech* and *Muniauction*, as it seems to unnecessarily focus on the relationship between the parties through, for example, a contract or partnership and would find all liable for joint infringement. Thus, it is questionable whether the court’s ruling would have withstood appeal. The case, though, settled pending appeal.

3. *Privasys, Inc. v. Visa Int’l* -- Motion to Amend Complaint

In *Privasys, Inc. v. Visa Int’l*, 2007 U.S. Dist. LEXIS 86838 (N.D. Cal. Nov. 14, 2007), the plaintiff sued Visa for infringing a patented method “that uses an encrypted and compressed authentication code that is dynamically calculated with each transaction and transmitted via the discretionary data field through the legacy payment card processing system and which was validated by duplicating the calculation in the issuing bank’s data processing systems and comparing the two values for a match.” *Privasys*, 2007 U.S. Dist. LEXIS 86838, at *4. Claim 1 of the asserted U.S. Patent No. 7,195,154 reads:

A method for providing one or more secure transactions between a first entity and at least one additional entity, comprising the steps of:

(1) generating a Secure Card Number ("SCN") for the first entity, wherein the SCN is comprised of:

(a) a Transaction Information Block ("TIB");

(b) a Counter Block; and

(c) an encrypted Personal Identification Number ("PIN") Block;

(2) transferring the SCN and a first entity identifier to a second entity in a first transaction;

(3) transferring the SCN and the first entity identifier from the second entity to a money source; and

(4) verifying that the first transaction is valid with the money source by use of the first entity identifier and the SCN.

Plaintiff originally asserted infringement only against Visa, but sought to amend the complaint to also add Chase Bank and Wells Fargo Bank as defendants. *Id.* at *4. Visa allegedly had contracts with banks and merchants who performed some of the steps of the claimed method. 2007 U.S. Dist. LEXIS 86838, at *2. Visa instructed the banks and merchants on how to process these transactions. *Id.* Citing *Paymentech*, the defendants opposed the motion to amend the complaint, arguing the amendment would be futile because the plaintiff could not show that one party practiced each step or element of the claims in the plaintiff’s patent. *Id.* at *6.

The court allowed the amendment, concluding that the relationship alleged between Visa, the banks and the other entities that carried out certain steps of the patented method was stronger than the relationship at issue in *Paymentech*. The court explained that “plaintiff may well be

able to put forth facts showing that defendant and the issuing banks directed or controlled the conduct of other parties.” *Id.* at *8.

[P]laintiff has already indicated that it can produce precisely the type of evidence that had been absent in *BMC Resources*, i.e. that Visa “provides instructions or directions regarding the use of” its payWave card to the merchants and banks involved in the process, and also that Visa has a “contractual relationship” with “the financial institutions.” Both pieces of evidence tend to show that Visa exercised “direction or control” over the customer-merchant interaction as well as over the banks, and thus “perform[ed] or cause[d] to be performed each and every element of the claims.”

Id. at *8.

4. *Global Patent Holdings, LLC v. Panthers BRHC LLC -- 12(b)(6) Motion*

In *Global Patent Holdings, LLC v. Panthers BRHC LLC*, 586 F. Supp. 2d 1331 (S.D. Fla. 2008), the plaintiff alleged direct and indirect infringement of a method patent for downloading responsive data, including audio/visual and graphical presentations, such as JPEG images and other compressed data, from a remote server in response to a query. Asserted claim 17 of U.S. Patent No. 5,253,341 reads:

A method for downloading responsive data from a remote server comprising the following steps:

(a) identifying a query via a data input means and inputting said query to remote query and data retrieval means;

(b) transmitting said query from said remote query and data retrieval means to said remote server via an input/output means;

(c) receiving a compressed or non-compressed response to said query at said remote query and data retrieval means from said remote server via said input/output means;

(d) displaying a presentation corresponding to said compressed or non-compressed response on output means;

(e) wherein said compressed or non-compressed response is compressed prior to receipt at said remote query and data retrieval means, and wherein said compressed response is decompressed at said remote query and data retrieval means using an asymmetric decompression techniques corresponding to an inverse operation of the technique used to compress said compressed or non-compressed response.

Thus, a website server and a remote computer user were required to complete the claimed method. *Global*, 586 F. Supp. 2d at 1333. Citing *Paymentech*, the defendant moved to dismiss

the direct infringement claims under Fed. R. Civ. P. 12(b)(6), arguing that the defendant did not perform each and every step of the patented claims, nor direct or control another. The plaintiff argued that the remote user's actions were directed or controlled by the defendant because the defendant supplied programs and web material to the user's machine to enable users to execute the defendant's program. *Id.* The plaintiff asserted that "[n]othing happens at the user's computer in connection with the method steps of [the patent] that is not a direct result of the execution of programs and website material supplied by [defendant's] website." *Id.*

The court found that this relationship failed to establish direction or control as a matter of law. *Id.* at 1335. The court noted that the remote user was not contractually bound to visit the website, that the user was not visiting the website within the scope of an agency relationship with the defendant, and that the defendant was not otherwise vicariously liable for the acts of the remote user. *Id.* Citing both *Paymentech* and *Muniauction*, the court concluded that

it appears that the level of "direction or control" the Federal Circuit intended was not mere guidance or instruction in how to conduct some of the steps of the method patent. Instead, the court indicates that the third party must perform the steps of the patented process by virtue of a contractual obligation or other relationship that gives rise to vicarious liability in order for a court to find "direction or control."

Id.

5. *Rowe Int'l Corp. v. Ecast, Inc.* -- Summary Judgment Motion

In *Rowe Int'l Corp. v. Ecast, Inc.*, 586 F. Supp. 2d 924 (N.D. Ill. 2008), the court considered the *Paymentech* and *Muniauction* decisions on a motion for summary judgment of non-infringement, finding that a factual issue existed as to whether the defendant directed or controlled others. The patent at issue involved a central management station that could distribute digital music to multiple jukeboxes. *Rowe*, 586 F. Supp. 2d at 930. For example, claim 1 of U.S. Patent No. 6,397,189 at issue claims:

An improved computer jukebox for playing songs selected by users of the computer jukebox from a library of songs that have been digitally compressed and stored in the computer jukebox, where the library of songs stored in the computer jukebox is capable of being updated upon the receipt of compressed digital song data, which represents at least one song, and upon the receipt of song identity data, which represents the identity of each such song, the computer jukebox comprising:

a communication interface for receiving the compressed digital song data and the song identity data;

a data storage unit for storing the received compressed digital song data and the received song identity data for each of the songs stored;

a display for showing, to prospective user of the computer jukebox, information identifying the songs for which digital song data is stored in the data storage unit and that is based on song identity data;

selection keys responsive to a selection of a song to be played on the computer jukebox from the song identity information displayed on the display, the selection keys including a signal output representing activation of the selection keys;

at least one audio speaker;

a processor connected to a memory, the memory including a decompression algorithm for decompressing compressed digital song data;

a digital to analog converter coupled between the processor and the audio speaker to convert digital song data to an analog signal coupled to the speaker; and

wherein the memory further includes instructions for:

causing the processor, in response to the signal output, to access and process compressed digital song data retrieved from the data storage unit so that the accessed compressed digital song data corresponds to the song selected by the selection keys;

causing the processor to decompress the accessed compressed digital song data and send the decompressed digital song data to the digital to analog converter so that the song selected is played on the computer jukebox as a result of the corresponding stored compressed song digital data being decompressed and converted by the processor and the digital to analog converter; and

causing the processor to respond to compressed digital song data and to song identity data, which may be received by the communication interface of the computer jukebox, to control the storage of the received compressed digital song data and the received song identity data in the data storage unit to create an updated library of songs stored in the computer jukebox.

The defendant, Ecast, had contracts with third parties, which it considered “partners”, to manufacture jukebox hardware compatible with its system. *Id.* at 932. “[P]ursuant to these manufacturing contracts, [the partners] made jukeboxes specifically designed to operate with Ecast's network service,” in accordance with technical specifications provided by Ecast. *Id.* Additionally, “[w]hile Ecast can be flexible to meet the demands of manufacturing, all changes must be approved by Ecast” *Id.* at 933.

The court concluded that the evidence could support a finding that Ecast was a “mastermind” infringer. In other words, evidence existed from which a jury reasonably could find that the other parties manufactured jukebox hardware subject to Ecast’s “mastermind-level direction of participants in the alleged infringing activities.” *Id.* The court specifically found

that “[t]he indicia of direction and control go beyond what was present in *Paymentech* [and] *Cross Medical Products*.” *Id.*

6. Fisher-Barton Blades, Inc. v. Blount, Inc. -- Summary Judgment Motion

In *Fisher-Barton Blades, Inc. v. Blount, Inc.*, 584 F. Supp. 2d 1126 (E.D. Wis. 2008), the plaintiff asserted that defendants infringed claims of U.S. Patent No. 5,916,114, which discloses a process for making boron steel rotary cutting blades with at least 48 Rockwell Scale Hardness and at least 15 lb. toughness. All of the asserted claims of the ‘114 process required a “heat-treating” step, which none of the defendants performed. *Fisher-Barton*, 584 F. Supp. 2d at 1133. Rather, another company that “is an independent entity and is not controlled or owned by any of the Defendants” performed that step. *Id.*

In asserting summary judgment, the defendants relied solely on deposition testimony establishing only that the third party company was a separate legal entity. *Id.* at 1143. The court explained that such testimony “does not address the question of whether the Defendants direct or control the heat-treating process.” *Id.* Additionally, the plaintiff offered evidence that a defendant directed “that the blades meet a certain hardness” and the third party company “hardens them to meet that specification.” *Id.* As a result, after considering both *Paymentech* and *Muniauction*, the court refused to grant summary judgment, finding a genuine issue of material fact on the issue of direction and control. *Id.*

7. Emtel, Inc. v. Lipidlabs, Inc. -- Summary Judgment Motion

In *Emtel, Inc. v. Lipidlabs, Inc.*, 583 F. Supp. 2d 811 (S.D. Tex. 2008), the plaintiff asserted infringement of U.S. Patent No. 7,129,970, which recited a method of providing “telemedicine” using videoconferencing to allow a physician to communicate with a medical caregiver and patient in a remote healthcare facility. The ‘970 patent summarized the invention as follows:

video-conferencing arrangement having a mobile emergency center cart that can be positioned as needed within an emergency room or other medical facility and having a video camera enabling a remotely located medical practitioner to selectively and independently control various aspects of the video camera and audio equipment to thus enable the medical practitioner to visualize and communicate with both the patient and the emergency room personnel or closely inspect the physical condition of the patient so that the medical practitioner can diagnose and control the patient's treatment and visually inspect and talk with the patient prior to and during treatment

Emtel, 584 F. Supp. 2d at 815. The ‘970 patent required several entities to perform various steps: (1) an entity (like defendants) to provide and operate a videoconferencing system; (2) a physician; and (3) a remote medical care facility in which there is a caregiver and a patient. *Id.* at 827.

In opposing the motion for summary judgment, the plaintiff asserted that it met the “direction or control” requirement of *Paymentech* and *Muniauction* with evidence that defendants contracted with individual doctors to perform the medical activities required to deliver telemedicine services to patient in remote locations via videoconferencing. *Id.* at 828. The defendants responded, though, that the contracts stipulated that the doctors “maintain discretion and control over the diagnoses they perform, the medical instructions they provide, and the medical treatment they aid in providing.” *Id.*

Analyzing *Paymentech* and *Muniauction*, the court explained that merely “[p]roviding data to another party . . . does not support an inference of adequate ‘direction or control.’” *Id.* at 831 (citing *Paymentech*, 498 F. 3d at 1381). Similarly, “[c]ontrolling access to a system and providing instructions on using that system -- ‘teaching, instructing, or facilitating of the other party’s participation in the patented system’ . . .” also failed to establish direction or control. *Id.* (quoting *Muniauction*, 523 F. 3d at 1329).

The court determined that the plaintiff failed to offer evidence of direction or control because the contracts only “set basic parameters for the physicians to follow that do not affect much less control, how they exercise their judgment in performing the medical work that is required by” the ‘970 patent. *Id.* at 838. While the contracts “set some basic parameters for the physicians -- including adhering to professional standards, maintaining liability insurance, complying with schedules, using certain billing services”, they “do not set limits on or assert control over the physicians’ medical work, judgment, or skill.” *Id.*

8. *kSolo, Inc. v. Catona* -- Motion for Judgment on the Pleadings

In *kSolo, Inc. v. Catona*, 2008 WL 4906115 (N.D. Cal. Nov. 10, 2008), *kSolo* was accused of infringing U.S. Patent No. 6,288,319, which concerned a method for creating a custom electronic audio greeting card via computer. The method had several steps:

selecting a pre-recorded song from a song database, downloading that song from a server to a client computer, recording a vocal track on the client computer while the pre-recorded song is playing, mixing the track with the pre-recorded song, saving that mix onto the server, assembling the mix into an electronic greeting card, and delivering the electronic greeting card.

kSolo, 2008 WL 4906115 at *1. *kSolo* moved for a finding of non-infringement because the patented method required action by at least two parties -- a user to select the song and record their vocal track and a server computer to mix the audio tracks, assemble the greeting and deliver it to the intended recipients. *Id.* at *3. Thus, *kSolo* argued that it was entitled to judgment as a matter of law because no single party performed all of the steps of the claims at issue. *Id.*

Addressing both *Paymentech* and *Muniauction*, the court noted that neither case “provides a standard for courts to use in determining whether one actor was under the control or direction of another.” *Id.* Rather, the cases create a “spectrum” of multi-party relationships:

At one end is “mere arms-length cooperation,” which is insufficient to establish infringement. At the other end is “control

or direction over the entire process such that every step is attributable to the controlling party, i.e., the mastermind,” which is sufficient to establish infringement. The outcome of applying the direction or control standard depends on where on this spectrum a particular case falls.

Id. (quoting *Emtel, Inc. v. Lipidlabs, Inc.*, 2008 WL 4450310 at *14 (S.D. Tex. Sept. 30, 2008)).

The court denied kSolo’s motion for judgment on the pleadings for a finding of non-infringement. *Id.* at *4. The patent holder advanced two theories of infringement: (1) the users performed every step of the claimed process, or (2) even if the server performed some of the steps of the claims process, the users controlled every aspect of the card-creation process. *Id.* The court explained that “[e]ven if the pleadings establish that the users could not infringe the patent without the kSolo software, the fact that users were aided does not preclude a finding that the users performed the requisite elements of the patented method.” *Id.* Because the question of control or direction is fact-intensive, it “cannot be resolved on the pleadings.” *Id.* The court concluded that “[t]o determine whether the users perform all of the elements of the claim with the assistance of the server, or whether the users perform some of the elements and then direct or control the server in its performance of the remaining elements of the claims at issue, this Court must first determine what the elements are via a claim construction hearing.” *Id.* at *5.

9. *The Friday Group v. Ticketmaster* -- 12(b)(6) Motion

In *The Friday Group v. Ticketmaster*, 2008 WL 5233078 (E.D. Mo. Dec. 12, 2008), accused of infringing U.S. Patent No. 6,288,319, the plaintiff alleged infringement of U.S. Patent No. 6,920,428. The ‘428 patent required the following steps:

1. Providing an opportunity to purchase a recording of a live event at a point-of-sale of tickets before the event occurs.
2. Conducting the live event.
3. Recording at least a portion of the live event.
4. Manufacturing copies of the recording.
5. Distributing the manufactured copies to those who preordered the recording.

The Friday Group, 2008 WL 5233078 at *1. Defendants sought dismissal under Fed. R. Civ. P. 12(b)(6), arguing that “Friday’s Complaint does not allege facts identifying which single party practices each and every step, or alternatively which single party is the ‘mastermind’ that directs or controls the performance of each and every step, of the claimed method.” *Id.* at *3. The court agreed, holding that “[a]bsent the allegation that one of these defendants was the one that directed or controlled the method, Plaintiff fails to state a claim for direct infringement.” *Id.* Similarly, Plaintiff failed to sufficiently allege “facts to support a claim that any of the other defendants would be vicariously liable to the alleged ‘mastermind’ defendant based upon some

contractual, agency or other relationship.” *Id.* Merely alleging either that each defendant was a direct infringer or, alternatively, that each is a joint infringer was insufficient. *Id.*

Notably absent from Plaintiff’s Complaint and its Memorandum, however, is any indication as to which defendant exercises this direction or control. Rather, Plaintiff instead throws too broad a net and instead attempts to implicate each defendant without identifying any single defendant as the “mastermind” or that one would ultimately be vicariously liable for the acts of the other defendants. As instructed by *BMC Resources, Inc.*, “[i]nfringement requires, as it always has, a showing that a defendant has practiced each and every element of the claimed invention.” Plaintiff has not alleged that a single defendant practiced each and every element or that any defendant would be liable for joint infringement. . . .

Plaintiff has merely alleged that any of the six defendants directed or controlled the operations of the other five defendants and, thereby, infringed the Patent ‘428. Such an indefinite and nebulous pleading does not meet the standard defined in *Bell Atl. Corp. v. Twombly* or the requirements as set forth in [*Paymentech*].

Id. at 4-5 (quoting *Paymentech*, 498 F. 3d at 1380).

III. APPLICATIONS

The lessons of *Paymentech* and *Muniauction* are broad.

A. Litigation Lessons

1. Discovery

A plaintiff patent owner should remember to take discovery aimed at uncovering evidence of “control or direction”. This should include contracts, correspondence surrounding the negotiation of the contract, correspondence surrounding the performance of the steps at issue, instructions, including technical specifications, standards, evidence of any trials or inspections, and any evidence of attempts to perform the process.

2. Selecting Claims to Assert

Plaintiffs also should consider asserting apparatus claims, including means-plus-function claims, to avoid having their case dismissed on summary judgment. By its own language, the *Paymentech* limitations on joint infringement appear to be limited to patented processes (method claims). Though there are some similar limitations on apparatus claims, the patentee plaintiff may more easily get to the finish line with apparatus claims. For example, in *Cross Med. Prods. v. Medtronic Sofamor Danek*, 424 F. 3d 1293, 1311 (2005) the Federal Circuit rejected the patentees’ efforts to combine the acts of surgeons with those of a medical device manufacturer to find direct infringement of an apparatus claim, but remanded for further findings on whether the

surgeon *used* an infringing apparatus and the medical device manufacturer induced that infringement.

3. When to Raise the Issue

Defendants accused of divided infringement should consider the *Paymentech* “control or direction” test in gathering their own evidence for summary judgment motions. *BMC Resources v. Paymentech* and *Muniauction, Inc. v. Thomson Corp.* are more likely to be effective tools for defendants at summary judgment and on appeal than in front of a jury. Convincing a jury to find no infringement, and therefore no liability, because multiple parties perform the claimed steps, rather than a single party, may be a hard sell.

However, defendants also should consider raising the issue on a motion to dismiss for failure to state a claim, as at least two courts have held that the failure to allege which specific defendant directed or controlled the actions of others in carrying out the steps of an asserted method should lead to dismissal.

B. Claim Drafting Lessons

While it has always been a good practice to keep the infringement case in mind while drafting patent claims, *Paymentech* makes it even more important to do so. The Federal Circuit explicitly said as much:

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. See Mark A. Lemley et al., *Divided Infringement Claims*, 33 AIPLA Q.J. 255, 272-75 (2005). In this case, for example, BMC could have drafted its claims to focus on one entity. The steps of the claim might have featured references to a single party’s supplying or receiving each element of the claimed process.

Paymentech, 498 F. 3d at 1381. Another approach is to include apparatus and means-plus-function claims.

C. Lessons for Structuring Relationships and Drafting Contracts

Many of the relationships that will ultimately be tested by the *Paymentech* and *Muniauction* standards are business relationships that develop wholly apart from any consideration of patent liability. There are some areas where defendants can avoid pitfalls so that they can avail themselves of these cases, if needed.

1. Contract Language

As the *Paymentech* court explained,

[a] party cannot avoid infringement, however simply by contracting out steps of a patented process to another entity. In those cases, the party in control would be liable for direct infringement. It would be unfair indeed for the mastermind in such situations to escape liability.

Paymentech, 498 F. 3d at 1381. The Federal Circuit and district courts applying the Federal Circuit's rulings suggest that, in certain circumstances, a contract might provide evidence that a certain party is the "mastermind" and, therefore, liable.

There often are many considerations when drafting the terms of contracts that govern the relationships between companies working together to perform a process. Moreover, some defendants work together without the benefit of a contract to define their relationship. For many reasons, it is advisable to avoid language that gives one party "control" over the other. For example, it would be better to define the end result or service to be delivered, but leave the "how" up to the provider of the services. Whether this is possible, though, depends on the specific claim language at issue.

2. Technical Standards

Industries often establish technical standards so that their services are compatible and can be used together to perform a process. In these circumstances, the party establishing the standards may be accused of "controlling" or "directing" others. While these standards are often helpful, voluntary compliance with standards should be specifically described as such. Perhaps the "standards" could be called "suggestions" instead. *Muniauction* appears to provide protection for providing "instructions" to customers, but the instructions in that case did not come with any contractual obligation to follow them.

IV. CONCLUSION

The Federal Circuit in *Paymentech* and *Muniauction* did not completely foreclose the possibility that joint infringement might exist where evidence of direction or control exists. Certainly one can imagine facts that could lead a reasonable jury to conclude that one defendant was exercising control over another, such as where a defendant maintains a right to inspect or provides technical specifications to others. Some might even argue that any time there is a contractual relationship between the parties there is an inherent factual issue, i.e. that the party paying for the services of another inherently has some level of control over the operations of the other.

In deciding *Paymentech*, 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." *Paymentech*, 498 F. 3d at 1381. How far the courts are willing to expand this new allowance for arms-length agreements remains to be seen. What is clear is that it depends upon the industry, the contract, the claim language, and the facts in each case. *Paymentech*, it appears, was not a silver bullet that killed all allegations of joint infringement. It did, however, require the plaintiff to identify the party in control. It will no longer be enough to simply choose the deepest pockets.

⁺ The views expressed in this paper are those of the author only.

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