

# Joint Patent Infringement—It's Argued, But Does It Really Exist?

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# Introduction

- *Paymentech* and *Muniauction* decisions have changed the face of “joint infringement”
- Joint Infringement:
  - More than one party performs the steps of a claimed method
  - Often called joint infringement, divided infringement, conspiracy infringement

# Introduction (con't)

- Before *Paymentech* and *Muniauction*:
  - Joint infringement liability could exist so long as there was some relationship between the defendant and the third party that performed certain steps.
  - i.e. claim that requires that certain steps be performed on a computer; those steps are performed by a defendant's customer, not the defendant

# Introduction (con't)

- After *Paymentech* and *Muniauction*:
  - More than a mere, amorphous relationship must exist.
  - “Mastermind Test” – The defendant must “control or direct” the actions of third parties that perform any of the steps of the asserted process.

# *BMC Resources, Inc. v. Paymentech*

*498 F. 3d 1373 (Fed. Cir. 2007)*

- The method claims of the asserted patent covered a method for processing debit transactions between a merchant and a customer, using a touch-tone telephone without using a PIN.
- Infringement required action by three parties:
  - the company offering the PIN-less debit payment services (Paymentech),
  - a debit network, and
  - a financial institution.
- The parties agreed that other parties -- not Paymentech -- performed at least three steps of the patented process.

## *Paymentech (con't)*

- Paymentech moved for summary judgment of non-infringement.
- Court: BMC offered evidence that Paymentech provided data, including debit card numbers, names, amounts of purchase, etc., to debit networks, but BMC failed to offer any evidence that Paymentech “also provide[d] instructions or directions regarding the use of those data.”
- Court: “Although 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.” 6

# *Paymentech (con't)*

- Court reiterated that “[d]irect infringement requires a party to perform or use each and every step or element of a claimed method or product.”
- But it also recognized that vicarious liability may be imposed “[w]hen a defendant participates in or encourages infringement but does not directly infringe a patent.” I.e. indirect infringement, which requires a predicate finding that some party “committed the entire act of direct infringement.”

# *Paymentech (con't)*

## ■ Vicarious Liability

- Court recognized that the rules for vicarious liability could provide a “loophole” by having third parties carry out a step of the claimed process.
- Court dismissed this concern:
  - One party may be the “mastermind”, directing or controlling the third party’s performance of the steps of the claimed method.
  - A finding of non-infringement is appropriate if the relationship is arms-length, with no element of direction or control. Otherwise, the rules governing direct infringement would be expanded so broadly as to reach independent conduct of multiple actors. That would make indirect infringement superfluous.
  - “Proper claim drafting” can offset this concern. “A patentee can usually structure a claim to capture infringement by a single party.”

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

532 F. 3d 1318 (Fed. Cir. 2008)

- The plaintiff asserted claims related to a patent directed to original issuer municipal bond auctions over the internet.
- The first step in the process, “inputting data”, was performed by a bidder; the remaining steps were performed by the defendant auctioneer’s system.
- Court: A mere relationship between the parties is insufficient to establish infringement.
- Court: The question is whether the defendant auctioneer directed or controlled the bidders’ conduct.

# *Muniauction* (con't)

- Direction or Control
  - Can be proven “where the law would traditionally hold the accused direct infringer vicariously liable for the acts committed by [the others].”
  - Evidence that the defendant auctioneer provided access to its bidding system and instructed bidders on how to use the system failed to meet that test.
  - The defendant “neither performed every step of the claimed methods nor had another party perform steps on its behalf.”

# District Court Decisions – 12(b)(6)

- *Global Patent Holdings, LLC v. Panthers BRHC LLC*, 586 F. Supp. 2d 1331 (S.D. Fla. 2008)
  - Plaintiff alleged infringement of a method patent for downloading responsive data, including audio/visual and graphical presentations from a remote server in response to a query.
  - A website server and a remote computer user were required to complete the claimed method.

## 12(b)(6) – *Global Patent Holdings* (con't)

- Plaintiff's allegations of “direction and control”
  - The defendant supplied programs and web material to the user's machine to enable users to execute the defendant's program.
  - Plaintiff claimed 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.”

## 12(b)(6) – *Global Patent Holdings* (con't)

- Court: Plaintiff failed to state a claim.
  - Plaintiff failed to allege direction or control as a matter of law.
  - The remote user was not contractually bound to visit the website.
  - The user was not visiting the website within the scope of an agency relationship with the defendant.
  - The defendant was not otherwise vicariously liable for the acts of the remote user.

## 12(b)(6) – *Global Patent Holdings* (con't)

- “Direction or Control”
  - Mere guidance or instruction in how to conduct some of the steps of a method patent do not establish direction or control.
  - The third party must perform the steps of the patented process as a result of a contractual obligation or other relationship that gives rise to vicarious liability.

# District Court Decisions – 12(b)(6)

- *The Friday Group v. Ticketmaster*, 2008 WL 5233078 (E.D. Mo. Dec. 12, 2008)
  - Plaintiff asserted a patent regarding a method of selling and distributing articles associated with live events.
  - Defendant moved to dismiss because the complaint did not allege which party practices every step of the claimed method or which party directed or controlled the performance of certain steps by others.

## 12(b)(6) – *The Friday Group* (con't)

- Court: Plaintiff failed to state a claim.
- “Absent 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.”
- Plaintiff also failed to sufficiently allege facts supporting a claim of vicarious liability based on a contractual, agency or other relationship.

## 12(b)(6) – *The Friday Group* (con't)

- Merely alleging either that each defendant was a direct infringer or, alternatively, that each is a joint infringer, was insufficient.
  - Plaintiff's complaint did not indicate which defendant exercised direction or control.
  - “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.”
  - The mere allegation that any one of the six defendants directed or controlled the other defendants is too “indefinite and nebulous” to meet the pleading standard of *Bell Atl. Corp. v. Twombly*.

# District Court Decisions – Summary Judgment

- *Rowe Int'l Corp. v. Ecast, Inc.*, 586 F. Supp. 2d 924 (N.D. Ill. 2008)
  - Plaintiff asserted a patent involving a central management station that could distribute digital music to multiple jukeboxes.
  - Defendant moved for summary judgment, claiming that third parties manufactured jukebox components, and that defendant only contributed a memory “that makes the system work,” as well as the network.
  - Court: denied motion for summary judgment
    - Defendant had contracts with third parties, which it considered “partners,” to manufacture jukebox hardware compatible with its system.
    - The contracts required the third parties to make jukeboxes specifically designed to operate with the defendant’s network service, pursuant to technical specifications provided by the defendant.
    - All changes to the manufacturing process had to be approved by the defendant.
    - This evidence could support a finding that the defendant was a “mastermind” infringer.

# District Court Decisions – Summary Judgment

- *Gammino v. Cellco Partnership*, 527 F. Supp. 2d 395 (E.D. Pa. 2007)
  - Plaintiff asserted patents claiming processes and apparatuses for preventing telephones from making international calls. The claims involved means of recognizing and disconnecting phone calls commenced with dialing sequences that typically correspond to international calls.
  - Defendant moved for summary judgment, claiming that a third party performed the claimed step of evaluating the dialing sequences to determine if the sequence is blocked.

## Summary Judgment – *Gammino* (con't)

- Court: granted motion for summary judgment
  - Evidence showed that the defendant was not aware how the third party performed the claimed step of evaluating the dialing sequences to determine if the sequence is blocked.
  - “Direction and Control” requires more than a mere contract between the parties.
  - Defendant must direct or control *how* the missing step was performed.

# District Court Decisions – Summary Judgment

- *Emtel, Inc. v. Lipidlabs, Inc.*, 583 F. Supp. 2d 811 (S.D. Tex. 2008)
  - Plaintiff asserted patent claim that 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 patent claim required several parties 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.
  - Defendants moved for summary judgment, claiming that the defendants’ contracts with physicians gave them significant independence.

# Summary Judgment – *Emtel* (con't)

- Court: granted motion for summary judgment
  - Merely providing data to another party “does not support an inference of adequate ‘direction or control.’”
  - Neither does controlling access to a system and providing instructions on using that system, i.e. “teaching, instructing, or facilitating of the other party’s participation in the patented system.”
  - The contracts that the defendant operators of videoconferencing systems had with physicians set “basic parameters” for the physicians, i.e. requiring that they adhere to professional standards, maintain liability insurance, comply with schedules, use certain billing services, etc.
  - The contracts, though, did not “set limits on or assert control over the physicians’ medical work, judgment, or skill.”
  - The contracts did not “affect much less control, how they exercise their judgment in performing the medical work that is required by” the patent’s claims.

# District Court Decisions – JMOL

- *Golden Hour Data Systems, Inc. v. emsCharts, Inc., et al*, 2:06-cv-381 (E.D. Tex. April 3, 2009)
  - Plaintiff asserted patent method and apparatus claims relating to a “comprehensive system that includes modules for dispatching, emergency medical teams, tracking their movement to and from the accident scene, managing a clinical diagnosis and treatment and accurately billing the patient for the services rendered.”
  - A jury found that Defendants emsCharts and Softtech jointly infringed the ‘073 patent.
  - Defendants sought judgment as a matter of law, arguing that there was insufficient evidence to prove “control” or “direction” by either party.

# JMOL – *Golden Hour* (con't)

- Court: granted JMOL
  - Judge Ward found the evidence insufficient to support joint infringement:
    - Softtech and emsCharts had a non-exclusive distributorship agreement that defined the relationship as *not* creating “any agency, partnership, joint venture, or employer/employee relationship.”
    - Customers sometimes paid emsCharts (instead of Softtech) directly for the allegedly infringing software.
    - emsCharts made one sale on Softtech’s behalf.
    - emsCharts urged Softtech to stay diligent on closing sales.
    - emsCharts and Softtech agreed to jointly submit one RFP.
    - The parties had joint price quotes and participation in sales and information sessions.
  - Citing Restatement (Second) of Agency § 220, Judge Ward explained that “[a] contracting party is not vicariously liable for an independent contractor unless that party controls the details of the independent contractor’s work to such an extent that the contractor cannot perform the work as he chooses.”
  - Judge Ward concluded that emsCharts did not exercise this level of control over Softtech.

# What Does This Mean?

## ■ Litigation

### ■ Plaintiffs

- Complaint -- If joint infringement is an issue, plead which party is the “mastermind”, i.e. directs and controls others.
- Complaint – Consider asserting apparatus claims to avoid joint infringement issue.
- Discovery – take discovery aimed at uncovering evidence of direction or control, i.e. contracts; correspondence relating to the negotiation of the contract; correspondence relating to the performance of the contract and the steps at issue; instructions, including technical specifications; standards; evidence of any trials or inspections; evidence of attempts to perform the process.

# What Does This Mean? (con't)

## ■ Litigation

### ■ Defendants

- File motions to dismiss under Fed. R. Civ. P. 12(b)(6) – at least two courts have granted the motions.
- File motions for summary judgment – but make sure you've marshaled your facts.
  - Assert more than the existence of other parties performing required steps.
  - Assert more than a lack of a contract.
  - Assert that plaintiff has no evidence of “direction or control” or other evidence establishing vicarious liability.

# What Does This Mean? (con't)

## ■ Claim Drafting

- Federal Circuit specifically addressed this in *Paymentech*
- “A patentee can usually structure a claim to capture infringement by a single party.”
- Include apparatus claims. *But see Rowe.*

# What Does This Mean? (con't)

## ■ Negotiating Contracts

- Federal Circuit specifically addressed this in *Paymentech*
- “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.”
- Avoid language that gives one party control over the other in the manner certain work is carried out.
- Avoid giving specifications and other specific instructions on how their work must be carried out; give room for independent judgment.
- This may not be possible in many situations.

# Conclusion

- *Paymentech* and *Muniauction* changed the landscape for joint infringement.
- Plaintiffs cannot now pursue only the deepest pockets.
- Plaintiffs must establish that the defendant meets the “mastermind” test.
- Plaintiffs have a high hurdle to overcome.