



May 11, 2009 IP Innovations Class:

Joint Patent Infringement After *Muniauction*; and  
Standards Bodies and Patent Disclosures After *Broadcom*

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## Joint Infringement

- Joint infringement is a theory of direct infringement, which is codified as 35 U.S.C. § 271(a): “... whoever without authority makes, uses, offers to sell or sells any patented invention... infringes the patent.”
  - As distinguished from inducement of infringement and contributory infringement under 35 U.S.C. § 271(b) & (c), both of which require an underlying act of direct infringement.
- In general, direct infringement requires a single party to perform every step of the claimed method. *See, e.g., Canton Bio Medical, Inc. v. Integrated Liner Technologies, Inc.* 216 F.3d 1367, 1369-70 (Fed.Cir.2000)
- However, it is a well-settled rule that a defendant cannot avoid liability for direct infringement by having someone else carry out one or more of the claimed steps on its behalf. *See, e.g., BMC Resources, Inc. v. Paymentech, L.P.*, 498 F.3d 1373, 1379 (Fed.Cir.2007).

***BMC Resources, Inc. v. Paymentech, L.P.***, 498 F.3d 1373, 1379 (Fed.Cir. 2007).

- The asserted patent related to a method for debit bill payment and required the combined actions of (1) an interface owner, (2) a debit / ATM network, and (3) a bank.
- Where 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”.
- Mere “arms-length cooperation” between the accused parties will not give rise to direct infringement by any party.
- The control or direction 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.
- The court upheld SJ on non-infringement in favor of Paymentech.

***Muniauction, Inc. v. Thomson Corp.***, 532 F.3d 1318 (Fed.Cir. 2008).

- The most recent case out of the Federal Circuit to address the issue of joint infringement; reaffirmed *BMC Resources*.
- The asserted patent (US Pat. No. 6,161,099) was directed to electronic methods for conducting original issuer municipal bond auctions over an electronic network, e.g., the Internet, using a web browser.
- It was undisputed that no single party performed every step of the asserted claims. The claimed methods recited steps performed by an auctioneer and steps performed by a bidder (*i.e.*, unnamed end user).
- The issue with respect to infringement was whether the actions of the auctioneer and the bidder could be combined under the law so as to give rise to a finding of direct infringement by the auctioneer.

## *Muniauction (Cont'd)*

- In the district court cast, the jury found that the defendant willfully infringed the asserted patent. Muniauction was awarded \$77M in damages and an injunction against further infringement.
- Applying the rule of *BMC Resources*, the Federal Circuit reversed the lower court and held that the defendant did not, as a matter of law, directly infringe the asserted patent.
  - The defendant (auctioneer) neither performed every step of the claimed methods nor had another party perform steps on its behalf.
  - The plaintiff identified no legal theory under which the defendant might be vicariously liable for the actions of the bidders.
  - The court did not agree with plaintiff's argument that the "direction or control" standard was satisfied because defendant controlled access to its system and instructed bidders as to its use.

***Global Patent Holdings, LLC v. Panthers BRHC LLC***, 586 F.Supp.2d 1331 (S.D.Fla. 2008).

- The asserted patent related to a method for downloading responsive data from a remote server.
- Plaintiff alleged that defendant and home users of defendant's website jointly infringed the asserted patent b/c defendant's website "controls and directs the performance of each of the steps of [the asserted claim] which are not performed" by defendant itself.
  - Nothing happens at the user's computer in connection with the method steps of the asserted claim that is not a direct result of the execution of programs and website material supplied by defendant's website.
- Defendant moved to dismiss the complaint, under F.R.E 12(b)(6), as insufficient to state a claim for direct infringement.

## Global Patent Holdings (Cont'd)

- In discussing *BMC Resources* 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...”
- The court granted defendant’s motion to dismiss because:
  - plaintiff did not allege that remote users were contractually bound to visit defendant’s website;
  - plaintiff did not allege that remote users were defendant’s agents who visit defendant’s website within the scope of their agency relationship; and
  - plaintiff did not allege any facts which would render defendant vicariously liable for acts of the remote users.

***Rowe International Corp., and Arachnid, Inc. v. ECast, Inc. et al.***, 586 F.Supp.2d 924 (N.D.Ill. 2008).

- Asserted patents related to computer jukeboxes and computer jukebox networks.
- Plaintiffs moved for SJ of infringement regarding several asserted claims (system claims and method claims).
- Defendants argued that SJ should be denied because no one defendant practiced each and every element of the asserted claims; each defendant made different components of the accused system and the operators of the individual jukeboxes put all of the components together to create the working system.
- The court refused to deny SJ on this basis, finding sufficient “direction or control” among defendants (SJ was denied on other grounds).

## *Rowe International (Cont'd)*

- The court noted that the focus of the inquiry was properly on the defendants, not the jukebox operators, b/c no claim construction required assembly of the computer jukeboxes in the manner that defendants said makes for a “working system.”
- The court found that Ecast had literally contracted out to the other defendants the jukebox hardware element of the asserted claims.
  - Ecast promoted the overall system (including components made by other defendants) in its marketing literature.
  - Ecast had manufacturing / distribution contracts with the other defendants.
  - Ecast regarded the other defendants as “partners” that, pursuant to the contracts, made jukeboxes specifically designed to operate with Ecast’s network service.
  - Ecast prescribed “reference designs” to the other defendants.
  - There was no suggestion that the other defendants were independently making jukeboxes that would work with Ecast’s system.

***EMTEL, Inc. v. LipidLabs, Inc. et al.***, 583 F.Supp.2d 811  
(S.D.Tex. 2008).

- Asserted patent related to a method for providing telemedicine using videoconferencing to allow physician to communicate with medical caregiver and patient in remote healthcare facility.
  - The independent claims call for actions by both a provider/operator of the videoconference system and a physician.
- Defendants moved for SJ of non-infringement because all claimed steps are not performed or controlled by one entity.
- Defendants' SJ motion was granted:
  - Defendants operated the accused system and contracted with physicians to perform medical activities using that system; but the contracts stipulate that physicians maintain discretion and control over the diagnoses they perform, the medical instructions they provide and the medical treatment they aid in providing.

## *Emtel* (Cont'd)

- Although there was a contractual relationship between the defendants and the 3<sup>rd</sup> party physicians, the contracts did not provide a basis for the defendants to be vicariously liable for the physicians' conduct in performing the work that was necessary for infringement (e.g., diagnosing a medical condition of a patient...)
- The court noted that *Global Patent Holdings* and *Rowe International* make clear that to raise a fact issue under the direction-or-control standard, the alleged infringer must cause 3<sup>rd</sup> parties to perform steps of the claimed method in accordance with specific instructions and requirements.
  - These cases make clear that for liability to attach, the defendant must direct or control the 3<sup>rd</sup> party... such that the defendant could be vicariously liable for the 3<sup>rd</sup> party's performance.
  - Giving instructions or prompts to the 3<sup>rd</sup> party in its performance of the steps necessary to complete infringement, or facilitating or arranging for the 3<sup>rd</sup> party's involvement in the alleged infringement, are not sufficient.

***kSolo, Inc. v. Gary Catona, et al.***, 2008 WL 2906115 (C.D.Cal. 2008).

- Asserted patent was directed to an “electronic greeting card with a custom audio mix.”
- Citing *MuniAuction*, kSolo moved for judgment on pleadings and SJ of non-infringement, on the basis that the patented method required action by two parties: a user; and a server.
- 12(c) motion denied: “Under [*BMC Resources*] and *Muniauction*, the question of control or direction is a fact-intensive question, and thus cannot be resolved on the pleadings.”
  - But see, *Global Patent Holdings*; and *Friday Group, LLC et al. v. Ticketmaster*, 2008 WL 5233078 (E.D.Mo 2008) (granting motion to dismiss b/c plaintiff’s complaint did not allege that a single defendant practiced each and every element of the claimed invention.
- SJ motion also denied b/c kSolo had “not established whether the server itself is an independent actor, or is merely functioning as a piece of technology used or controlled by another actor.” Court reasoned that it had to construe the patent claims before it could answer the question.

***Keithley and Tren Technologies Patent Holdings, LLC v. The HomeStore.com, Inc.***, 2008 WL 4962885 (N.D.Cal. 2008).

- The asserted patent was directed to use of a computer system for acquiring, displaying and tracking real estate and property-related information.
- Defendants' websites are e.g., [www.realtor.com](http://www.realtor.com), [www.move.com](http://www.move.com), etc.
- Defendants moved for SJ of non-infringement regarding method claim 1, which the court construed to include one step performed by end users, in addition to steps allegedly performed by defendants' system.
- The court granted defendants SJ motion, finding that the facts of the case were essentially analogous to those of *Muniauction* and, thus, it was not appropriate to hold defendants vicariously liable for the acts of end users:
  - End users access / use defendants' websites free of charge.
  - Other than a general "Terms of Use," defendants have no contracts with end users and neither direct nor exercise control over the searches they conduct.
  - Defendants do not generally restrict or control users' access to the websites, nor direct users to any particular function

***Akamai Technologies, Inc., et al. v. Limelight Networks, Inc.***, Civil Action No. 06-11109-RWZ (D.Mass. 2009).

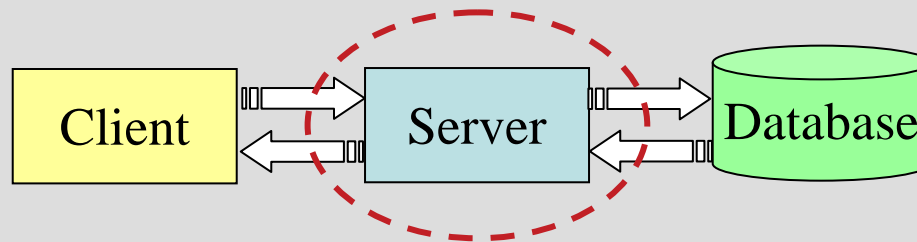
- Asserted patent was directed to Internet content delivery services.
- The court reasoned that while a showing of vicarious liability is sufficient to find direction or control, it is not a necessary requirement:
  - In *Muniauction*, the court refers to vicarious liability as an alternative theory of liability to having “another party perform steps on its behalf.”
  - In *BMC Resources*, the court cautioned that “a defendant cannot [] avoid liability for direct infringement by having someone else carry out one or more of the claimed steps on its behalf” (which would almost always avoid vicarious liability).
- Thus, per the court, *Muniauction* established that direction or control requires something more than merely a contractual agreement to pay for services and instructions or directions on how to utilize those services.
- The court granted Limelight’s motion for JMOL of non-infringement.

## Akamai Technologies (Cont'd)

- Limelight had a contractual relationship with its customers and instructed its customers how to utilize its content delivery service. But, under *Muniauction*, this was insufficient for ‘direction and control.’
  - The mere existence of a contract for services does not give rise to direction or control, even if the customer must perform steps of the patented process in order to receive the benefits of those services.
  - There is no suggestion that the agreements between Limelight and its customers were other than a result of arms-length negotiation.
  - Akamai has identified no legal theory under which Limelight might be vicariously liable for the actions of the content providers.
  - The first step of one of the asserted claims is performed by Limelight’s customer whether it subscribes to Limelight’s services or not.
  - Limelight’s customers make a modification as instructed by Limelight, but not per contract; rather, because they wish to avail themselves of Limelight’s service.

## Joint Infringement – Practice Pointers

- Draft patent claims to avoid joint infringement issues:
  - Draft claims from point of view of single actor.
  - “Black box” approach: focus on single element of invention and consider inputs, outputs and internal functionality.



- Include system claims (focus on specific components rather than overall system).
  - Eliminate or move to preamble all recitations that are not necessary to define claim from single actor perspective.
- If the invention / competitor’s activities are potentially ripe for pursuit of joint infringement action, affirmatively draft a separate set of claims directed to multiple actors.

## Joint Infringement – Practice Pointers

### Re-writing Asserted Claim 1 from *Muniaction*:

1. In an electronic auction system... an electronic auctioning process for auctioning fixed income financial instruments comprising:

[[inputting]] receiving over said at least one electronic network, from a web browser executed by said bidder's computer, 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]] and 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 said 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]] for displaying~~[[,]]~~ thereon [[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]].

## Joint Infringement – Practice Pointers

- When defending against a patent infringement claim, consider early on whether any of the asserted claims require actions by multiple parties.
  - If so, consider motion to dismiss or motion for summary judgment to dispose of those claims.
  - Through discovery, establish evidence of lack of direction or control among joint actors.
- When asserting patent claims that arguably require actions of multiple parties:
  - Where possible, name the joint actors as defendants;
  - Plead direction or control, preferably by one defendant;
  - Develop facts to show relationship between multiple defendants;
    - Will need to establish that one defendant acted on behalf of another, or that one defendant should be vicariously liable for acts of another.

## Joint Infringement – Practice Pointers

- Carefully consider jury instructions regarding joint infringement (“acting on behalf of” and/or “vicariously liability”).
- Be cautious when structuring cooperative relationships with 3<sup>rd</sup> parties.
  - Keep relationship at arms-length (each party should have freedom / discretion to perform its part of the bargain).
  - Controlling agreement should make clear that parties are independent contractors.
  - Where practical, avoid having one party provide technical specifications or specific instructions / direction to the other.
  - Indemnification provisions may be critical.

- Failure to disclose IP Rights to a Standards Setting Organization (“SSO”) may render a patent unenforceable. *Qualcomm, Inc. v. Broadcom Corp.*, 548 F.3d 1004 (Fed.Cir. 2008).
  - Followed *Rambus, Inc. v. Infineon Tech. AG*, 318 F.3d 1081 (Fed.Cir. 2003).
  - Issue in *Rambus* was whether fraud was committed under Virginia law for failure to disclose IP rights to SSO.
  - Federal Circuit found lack of substantial evidence to support a finding that *Rambus* breached its duty to disclose.
- *Qualcomm* permitted equitable remedies without proof of state law fraud charges.

## Qualcomm - Background

***Qualcomm, Inc. v. Broadcom Corp.***, 548 F.3d 1004 (Fed.Cir. 2008).

- Qualcomm participated in the Joint Video Team (JVT) standard setting organization (SSO) in developing the H.264 standard relating to video compression technology.
- The industry adopted the H.264 standard and began manufacturing and selling H.264 compliant devices.
- Qualcomm did not disclose to the JVT that it owned two patents covering H.264 compliant devices, prior adoption of the H.264 standard.
- Qualcomm sued Broadcom for patent infringement re: products compliant with H.264 video compression standard.
- Broadcom asserted that Qualcomm's infringement allegations ultimately accused the H.264 standard of infringing its patents.

- **Broadcom's Defense:** the Qualcomm patents should be rendered unenforceable for Qualcomm's failure to disclose its patent rights to the JVT.
- District Court found that Qualcomm breached its duty to disclose and as a result its patents were rendered unenforceable.
- ***Federal Circuit Opinion Undertook the Following Analysis:***
  - *Was there a duty to disclose?*
  - *What was the scope of the duty?*
  - *Was the duty breached?*
  - *What is the remedy for the breach?*

## Qualcomm - Duty to Disclose

### 1. Analyze the rules for express language.

- Qualcomm argued that rules only encouraged, not required, disclosure.
  - “[M]embers/experts are encouraged to disclose as soon as possible.”
  - “Such information should be provided on a best effort basis.”
- Qualcomm argued that disclosure only required if technical proposal submitted, of which it did not submit.
- Court found that “best effort” to disclose language when read in context required disclosure.

### 2. If ambiguous, determine if participants understood an obligation to disclose IP rights.

- Court also found that the understanding and performance of the participants created a duty.
- At meetings, discussed disclosure obligations and participants generally understood a disclosure obligation.

## Qualcomm - Scope of Duty to Disclose

- How does one determine whether they should disclose?
  - SSO rules indicated that participants should disclose patents “related to” the standardization work of the committee.
  - Court rejected Qualcomm’s argument that “related to” required “actually necessary” to practice the standard.
  - Court, like in *Rambus*, found that that scope of the duty was **“reasonably might be necessary”** to practice the H.264 standard.
    - Objective standard.
    - Applies when “a reasonable competitor would not expect to practice the standard without a license under the undisclosed claims.”
    - Does not require that the patents must “*actually be necessary*” to practice the standard.

- Breach of duty evidenced by a patentee asserting its patent rights against the standard.
  - If patent infringement claim passes Rule 11 muster, then the asserted patent presumably “reasonably might be necessary” to practice the invention.
- Court could not reconcile Qualcomm’s *ex post* arguments that “reasonably might be necessary” was not met by its *ex ante* arguments of infringement.

### 1. Waiver

- Appropriate grounds for equitable defense.
- Found waiver under “Implied Waiver Doctrine”.
- “A duty to speak can arise from a group relationship in which the working policy of disclosure of related IPR is treated by the group as a whole as imposing an obligation to disclose information in order to support and advance the purposes of the group.”
- Court found implied waiver.

### 2. Equitable Estoppel

- Found to be a viable equitable defense.
- Not remanded because waiver found.

- Unenforceability Based on Implied Waiver
  - Not standard inequitable conduct before PTO because after issuance.
  - Court relied on the patent misuse doctrine to formulate remedy.
    - Based on unclean hands and patent unenforceable until misuse is purged.
  - Complete unenforceability too broad.
  - Court limited unenforceability of the patents to only H.264 compliant devices.

***Hynix Semiconductor, Inc. v. Rambus, Inc.***, C-06-00244, 2009 WL 541321 (N.D.Cal. Mar. 3, 2009).

- Found to be factually distinguishable from *Qualcomm*.
  1. Written policies did not clearly create a duty.
  2. SSO members did not share a clearly defined expectation of disclosure.
  3. Patent at issue had not been applied for during Rambus' membership.
- Mere silence about an intent to obtain future patents with particular coverage was insufficient for equitable estoppel.

- Counsel clients to avoid or minimize potential litigation risks:
  - Stress the importance of disclosure to SSO.
  - Consider compliance officer.
  - Raise possible issue by including on invention disclosure forms question about whether invention is related to standards.
  - Assume that SSO rules may be read broadly.
  - Understand whether membership in SSO is corporate or individual.

## IP Disclosure to SSO - Practice Pointers

- If defendant in patent infringement suit:
  - Unenforceability for failure to disclose IPR to SSO a viable defense.
  - Investigate patentee's participation in the standard that may be at issue.
  - Investigate duty to disclose, not limited to express duty set forth in SSO rules.
  - Consider “exceptional case” assertion.
- If plaintiff in patent infringement suit:
  - Prepare for the unenforceability attack.
  - Understand the company's (or employees') role in the SSO.
    - Determine if the “company” participated or whether the employees participated in their individual capacity.
  - Consider whether infringement contention essentially covers the standard.
    - Possibly make assertions more device specific.



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