

# Notes and Comments

## AFTER *BMC RESOURCES, INC. V. PAYMENTECH, L.P.*: CONSPIRATORIAL INFRINGEMENT AS A MEANS OF HOLDING JOINT INFRINGERS LIABLE

Long Truong\*

INTRODUCTION.....	1897
I. PATENT INFRINGEMENT .....	1899
A. <i>Direct Infringement</i> .....	1901
B. <i>Indirect Infringement</i> .....	1904
II. JOINT INFRINGEMENT .....	1907
A. <i>Pre-BMC Resources Joint Infringement</i> .....	1908
B. <i>BMC Resources, Inc. v. Paymentech, L.P.</i> .....	1913
C. <i>Avoidance of Infringement Liability Through Conspiracy</i> .....	1918
III. CONSPIRATORIAL INFRINGEMENT .....	1922
A. <i>Common Law Civil Conspiracy</i> .....	1922
B. <i>Prima Facie Case for Conspiratorial Infringement</i> .....	1924
C. <i>The Conspiracy and Strong Intent Requirements</i> .....	1926
CONCLUSION.....	1927

### INTRODUCTION

A central precept of patent law is that the issuance of a patent gives the holder the right to exclude the rest of society from using her invention for a set period of time.<sup>1</sup> When a person intrudes on this right to exclude, she is an infringer and is liable to the patent holder for damages.<sup>2</sup> Generally, the

---

\* J.D., *cum laude*, Northwestern University School of Law, 2009; B.S., University of Illinois, 2000. I would like to thank Professor Mark Lemley for his insightful and valuable comments on an earlier draft of this Note as well as David O'Brien for assistance with patent prosecution issues. Of course, I would like to thank my parents, my family, and my friends for their thoughtful feedback and support.

<sup>1</sup> U.S. CONST. art. I, § 8, cl. 8 (“The Congress shall have Power . . . To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”). *See also* 35 U.S.C. § 154(a)(2) (2006).

<sup>2</sup> *See* 35 U.S.C. § 271 (2006); BLACK’S LAW DICTIONARY 796–97 (8th ed. 2004) (defining “infringement” as “[a]n act that interferes with one of the exclusive rights of a patent, copyright, or trademark owner”).

infringer must copy every element of the claimed invention in order to infringe on a patent.<sup>3</sup> Thus, for an invention consisting of a process or method, a patent infringer must perform every step of the patented process.<sup>4</sup> However, an infringer cannot avoid liability by contracting out some of the steps of this process or method to another party.<sup>5</sup>

Joint infringement occurs when a combination of actions by several parties results in the infringement of the patent, but no single party infringes on the patent by itself or controls the actions of the other parties.<sup>6</sup> The question of which parties, if any, can be liable for patent infringement in these situations has been a subject of much litigation and confusion in the courts.<sup>7</sup> Until the Court of Appeals for the Federal Circuit's ruling in *BMC Resources, Inc. v. Paymentech, L.P.*,<sup>8</sup> there were several theories through which patent holders obtained relief against joint infringers.<sup>9</sup>

*BMC Resources* was the first case to present the issue of the proper standard for determining joint infringement before the Federal Circuit. The Federal Circuit rejected the plaintiff's theories of joint infringement and held that one party—alone or through its agents—must perform all the steps of a process to be liable for infringement.<sup>10</sup> Thus, the court found that direction or control of other parties by a “mastermind” party is required for a finding of joint infringement.<sup>11</sup> However, the court also identified a potential loophole infringers may exploit. Specifically, the court acknowledged a “direction or control” standard may “allow parties to enter into arm’s-length agreements to avoid infringement.”<sup>12</sup>

A simple hypothetical illustrates this loophole. Suppose a patent holder owns a patent that claims an improved method for production of a widget that requires four sequential steps: A, B, C, and D. Any competitor that produced the widget through the sequential steps of A, B, C, and D would be infringing the patent. Furthermore, if the competitor performed steps C and D but contracted to another company to perform steps A and B, the

<sup>3</sup> *Hutchins v. Zoll Med. Corp.*, 492 F.3d 1377, 1380 (Fed. Cir. 2007).

<sup>4</sup> *Id.*

<sup>5</sup> *See Shields v. Halliburton Co.*, 493 F. Supp. 1376, 1389 (W.D. La. 1980).

<sup>6</sup> *On Demand Mach. Corp. v. Ingram Indus., Inc.*, 442 F.3d 1331, 1344–45 (Fed. Cir. 2006).

<sup>7</sup> *See, e.g., id.*; *Crowell v. Baker Oil Tools, Inc.*, 143 F.2d 1003 (9th Cir. 1944); *Hill v. Amazon.com, Inc.*, No. Civ.A.2:02-CV-186, 2006 WL 151911 (E.D. Tex. Jan. 19, 2006); *Mobil Oil Corp. v. W.R. Grace & Co.*, 367 F. Supp. 207 (D. Conn. 1973).

<sup>8</sup> 498 F.3d 1373 (Fed. Cir. 2007).

<sup>9</sup> *See, e.g., Crowell*, 143 F.2d at 1004 (setting forth the agency theory); *Faroudja Lab., Inc. v. Dwin Elec., Inc.*, No. 97-20010 SW, 1999 WL 111788, at \*4 (N.D. Cal. Feb. 24, 1999) (setting forth the “some connection” theory).

<sup>10</sup> *BMC Res.*, 498 F.3d at 1380–81.

<sup>11</sup> *Id.* at 1381.

<sup>12</sup> *Id.* (“This court acknowledges that the standard requiring control or direction for a finding of joint infringement may in some circumstances allow parties to enter into arm’s-length agreements to avoid infringement.”).

competitor would be infringing on the patent. However, if the same competitor entered into an informal agreement with another company to perform steps A and B without control or direction from the competitor, there would be no infringement.

The loophole (henceforth called “conspiratorial joint infringement”) identified by the Federal Circuit is a serious one. It encourages potential infringers of process patents to enter into conspiracies to circumvent infringement liability by dividing steps among the parties so long as there is no controlling or directing party. It is both unfair and perverse for the law to impose liability where a mastermind controls the infringing process, but not where there is a conspiracy between equals to perform the process. This loophole should be closed. This Note proposes a new form of patent infringement targeted at bad actors who attempt to avoid liability by capitalizing on the single-actor requirement of direct infringement.

Part I of this Note reviews the existing forms of patent infringement, including the historical and current bases for the various avenues through which patent holders can obtain relief from infringers.

Part II examines the history of joint infringement litigation. This Part first examines the various theories under which litigants have attempted, with varying degrees of success, to obtain relief against joint infringers. It then provides a case summary of *BMC Resources*. It concludes by examining both the Federal Circuit’s ruling and the implications of the loophole through which conspirators can avoid infringement liability.

Finally, Part III proposes a new cause of action, conspiratorial infringement, which would close the loophole created by *BMC Resources*. This Part first reviews the elements of common law civil conspiracy. It then applies these elements to conspiratorial joint infringement, resulting in a proposed cause of action of “conspiratorial infringement,” a narrow form of infringement that would provide patent holders protection against bad actors, without unduly broadening the scope of patent infringement, by applying principles of common law civil conspiracy principles to patent infringement.

## I. PATENT INFRINGEMENT

A review of the established means of patent infringement will place the problem of conspiratorial joint infringement in context. Article I of the Constitution grants Congress the right to issue patents to inventors.<sup>13</sup> Patents can be issued for, among other things, processes, machines, and compositions of matter.<sup>14</sup> By granting a patent, the government gives the inventor the right to exclude the public from using her invention for the du-

---

<sup>13</sup> U.S. CONST. art. I, § 8, cl. 8.

<sup>14</sup> 35 U.S.C. § 101 (2006).

ration of the term of the patent.<sup>15</sup> The government grants this limited monopoly as an incentive for inventors to create new inventions and disclose these inventions to the general public.<sup>16</sup> Patents are treated like personal property and thus can be bought, sold, or licensed.<sup>17</sup> Inventions are required to be new,<sup>18</sup> nonobvious,<sup>19</sup> and useful<sup>20</sup> to be eligible for a patent. The United States grants patents for a term of twenty years from the filing date of the patent application.<sup>21</sup> The government requires patents to contain several different elements, including a written description of the invention, a specification that describes a “best mode” of the invention and enables others to reproduce the invention, and one or more claims describing the elements of the invention.<sup>22</sup> Because the claims describe the elements of the invention, the language of the claim can have a dramatic effect on later litigation strategies for patent infringement.<sup>23</sup>

Patent infringement is an intrusion upon the inventor’s right to exclude.<sup>24</sup> Because there are many types of patents, the nature of the infringement necessarily depends on the nature of the claimed invention. For instance, a patent on a machine invention is infringed by the manufacture or sale of the patented machine by anyone other than the owner of the patent,<sup>25</sup> while a patent on a process is infringed by performance of the steps of the process.<sup>26</sup> Furthermore, patent infringement is normally divided into two categories: direct and indirect. Broadly speaking, direct infringement imposes liability when the defendant infringes a patent.<sup>27</sup> In contrast, indirect

---

<sup>15</sup> See Giles S. Rich, *Infringement Under Section 271 of The Patent Act of 1952*, 21 GEO. WASH. L. REV. 521, 523 (1953).

<sup>16</sup> *Id.* (“The patent law is an incentive system. The incentives needed to make normally slothful, normally selfish human beings produce inventions [and] disclose them to the public . . . must be powerful.”).

<sup>17</sup> 35 U.S.C. § 261 (2006).

<sup>18</sup> 35 U.S.C. § 102.

<sup>19</sup> 35 U.S.C. § 103.

<sup>20</sup> 35 U.S.C. § 101.

<sup>21</sup> 35 U.S.C. § 154(a)(2).

<sup>22</sup> 35 U.S.C. § 112, ¶ 1.

<sup>23</sup> For an example of the importance of claim drafting techniques, see Keith E. Witek, Comment, *Developing a Comprehensive Software Claim Drafting Strategy for U.S. Software Patents*, 11 BERKELEY TECH. L.J. 363 (1996). Witek argues that “method of manufacture” claims of software patents, when compared to conventional process claims for the same software, are more likely to be useful according to 35 U.S.C. § 101 and have significant litigation advantages. *Id.* at 412.

<sup>24</sup> *Lindemann Maschinenfabrik GmbH v. Am. Hoist & Derrick Co.*, 895 F.2d 1403, 1406 (Fed. Cir. 1990) (“In patent law, the fact of infringement establishes the fact of damage because the patentee’s right to exclude has been violated.”).

<sup>25</sup> 35 U.S.C. § 271(a) (2006).

<sup>26</sup> *EMI Group N. Am., Inc. v. Intel Corp.*, 157 F.3d 887, 896 (Fed. Cir. 1998).

<sup>27</sup> See *infra* Part I.A.

infringement imposes liability when a third party infringes a patent due to actions taken by the defendant.<sup>28</sup>

### A. Direct Infringement

Direct infringement is the most basic form of patent infringement. In essence, a party directly infringes on a patent when it sells or uses a patented invention or when it performs an entire patented process.<sup>29</sup> Direct infringement of a patent is a strict liability offense: there is no burden on the patent holder to show that the defendant intended to infringe or even knew about the patent.<sup>30</sup> There are two subcategories of direct infringement: literal infringement and infringement under the doctrine of equivalents.<sup>31</sup> In addition, courts have also found direct infringement when a party has her agents perform some of the required steps.<sup>32</sup>

1. *Literal Infringement.*—Literal infringement occurs when a party “without authority makes, uses, offers to sell, or sells any patented invention . . . during the term of the patent.”<sup>33</sup> Courts have consistently held that literal infringement requires “a showing that a defendant has practiced each and every element of the claimed invention.”<sup>34</sup> Thus, a machine invention infringement requires a showing that the defendant’s machine contains all the same elements as the patented invention.<sup>35</sup> Similarly, for a process patent, a plaintiff must show that the defendant performed all the steps of the patented process.<sup>36</sup> Thus, in the previous widget example, a party literally infringes on the patent when she performs steps A, B, C, and D.

2. *Doctrine of Equivalents.*—The doctrine of equivalents is a judicially created alternative to literal infringement.<sup>37</sup> The doctrine allows for recovery for infringement in certain situations where there is no literal infringement because the accused device does not fall within the claims of the invention.<sup>38</sup> Its purpose is to prevent a potential infringer from evading pa-

---

<sup>28</sup> See *infra* Part I.B.

<sup>29</sup> 60 AM. JUR. 2D *Patents* § 782 (2003).

<sup>30</sup> *BMC Res., Inc. v. Paymentech, L.P.*, 498 F.3d 1373, 1381 (Fed. Cir. 2007); see also *Blair v. Westinghouse Elec. Corp.*, 291 F. Supp. 664, 670 (D.D.C. 1968) (“[A]n infringement may be entirely inadvertent and unintentional and without knowledge of the patent.”).

<sup>31</sup> 5-16 DONALD S. CHISUM, *CHISUM ON PATENTS* § 16.02 (2005).

<sup>32</sup> See, e.g., *Crowell v. Baker Oil Tools, Inc.*, 143 F.2d 1003 (9th Cir. 1944).

<sup>33</sup> 35 U.S.C. § 271(a) (2006).

<sup>34</sup> *BMC Res.*, 498 F.3d at 1380. See also *Builders Concrete, Inc. v. Bremerton Concrete Prod. Co.*, 757 F.2d 255, 257 (Fed. Cir. 1985) (“Literal infringement requires that the accused device embody every element of the claim.”).

<sup>35</sup> *Builders Concrete*, 757 F.2d at 257.

<sup>36</sup> *EMI Group N. Am., Inc. v. Intel Corp.*, 157 F.3d 887, 896 (Fed. Cir. 1998).

<sup>37</sup> See generally 60 AM. JUR. 2D *Patents*, *supra* note 29, § 786.

<sup>38</sup> *Envtl. Instruments, Inc. v. Sutron Corp.*, 877 F.2d 1561, 1565 (Fed. Cir. 1989).

tent claims by making insubstantial changes to the claimed invention.<sup>39</sup> This doctrine evolved in response to the observation that parties seeking to infringe upon a patent rarely do so through outright duplication; instead they introduce minor variations to avoid infringing on the claims of the patent.<sup>40</sup> In essence, the doctrine is that “one may not practice a fraud upon a patent.”<sup>41</sup> Accordingly, the doctrine of equivalents is “equitable” in its broadest sense—“the doctrine prevents the unfairness of depriving the patent owner of effective protection of its invention.”<sup>42</sup>

What constitutes equivalency must be determined against the context of the patent and the particular circumstances of the case.<sup>43</sup> The Supreme Court has held that to find infringement under the doctrine of equivalents, courts should use a test similar to the “all elements” test of literal infringement.<sup>44</sup> Specifically, the court should determine if “the accused product or process contain[s] elements identical or equivalent to each claimed element of the patented invention.”<sup>45</sup> Thus, in our widget example, a party would infringe under the doctrine of equivalents by performing steps A, B, C, and E, if E is an insubstantial variant of step D.

3. *Direct Infringement Through Agency.*—Proof that the defendant performed all the elements (or their equivalents) of the claimed invention is central to a patent holder’s recovery for direct infringement of a patented process.<sup>46</sup> One obvious flaw to a mechanical application of this rule is that potential infringers can avoid liability by simply performing all but one step and contracting out the remaining step. However, courts have declined to allow this loophole, holding instead that it is direct infringement.<sup>47</sup>

When companies have attempted to evade infringement by contracting out steps, courts have imposed liability by holding that the contractors were essentially agents of the infringers. It is a basic principle of agency and tort law that employers are responsible for the activities of their servants.<sup>48</sup> This application of agency law to patent infringement is in line with the tradi-

<sup>39</sup> *Valmont Indus., Inc. v. Reinke Mfg. Co.*, 983 F.2d 1039, 1043 (Fed. Cir. 1993).

<sup>40</sup> *Graver Tank & Mfg. Co. v. Linde Air Prod. Co.*, 339 U.S. 605, 607 (1950).

<sup>41</sup> *Id.* at 608.

<sup>42</sup> *Hilton Davis Chem. Co. v. Warner-Jenkinson Co.*, 62 F.3d 1512, 1521 (Fed. Cir. 1995) (quoting *Graver*, 339 U.S. at 607).

<sup>43</sup> *Id.*

<sup>44</sup> *Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17, 40 (1997).

<sup>45</sup> *Id.*

<sup>46</sup> *BMC Res., Inc. v. Paymentech, L.P.*, 498 F.3d 1373, 1380 (Fed. Cir. 2007).

<sup>47</sup> See *Crowell v. Baker Oil Tools, Inc.*, 143 F.2d 1003 (9th Cir. 1944); *Hill v. Amazon.com, Inc.*, No. Civ.A.2:02-CV-186, 2006 WL 151911 (E.D. Tex. Jan. 19, 2006); *FMC Corp. v. Up-Right, Inc.*, 816 F. Supp. 1455 (N.D. Cal. 1993); *Mobil Oil Corp. v. W.R. Grace & Co.*, 367 F. Supp. 207 (D. Conn. 1973); *Metal Film Co. v. Metlon Corp.*, 316 F. Supp. 96 (S.D.N.Y. 1970).

<sup>48</sup> See RESTATEMENT (THIRD) OF AGENCY § 2.04 (2006) (“An employer is subject to liability for torts committed by employees while acting within the scope of their employment.”).

tional view of patent infringement as a type of tort<sup>49</sup> and similar to the historical creation of contributory infringement as an extension of the law of joint tortfeasors.<sup>50</sup>

*Crowell v. Baker Oil Tools*<sup>51</sup> was the first case in which a court applied agency principles to direct patent infringement. The plaintiff, Crowell, filed suit seeking a declaration that Baker Oil's patent was invalid.<sup>52</sup> Although he had no personal resources devoted to producing infringing products, Crowell had, through an agent, stockpiled a large amount of one of the materials for the manufacture of potentially infringing devices in anticipation of the court's ruling.<sup>53</sup> Baker Oil argued that Crowell did not have standing to sue for invalidation of the patent because he was not manufacturing an infringing item at the time, nor had he made preparations to manufacture one.<sup>54</sup> The Ninth Circuit, holding that Crowell had standing to bring suit because a controversy existed between the parties, stated that "[i]t is obvious that one may infringe a patent if he employ[s] an agent for that purpose or ha[s] the offending articles manufactured for him by an independent contractor."<sup>55</sup>

Similarly, the district court in *Hill v. Amazon.com, Inc.* held that "proof of an agency relationship or concerted activity would be sufficient to impose liability in circumstances where one party does not perform all the steps of the claimed method."<sup>56</sup> Most recently, the Federal Circuit stated in *BMC Resources* that "[a] party cannot avoid infringement . . . simply by contracting out steps of a patented process to another entity."<sup>57</sup> The court went on to state that "[i]n those cases, the party in control would be liable for direct infringement."<sup>58</sup>

<sup>49</sup> See, e.g., *Dowagiac Mfg. Co. v. Minn. Moline Plow Co.*, 235 U.S. 641, 648 (1915) (holding that patent infringement was a "tortious taking").

<sup>50</sup> *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 500 (1964) ("It is true that a contributory infringer is a species of joint-tortfeasor, who is held liable because he has contributed with another to the causing of a single harm to the plaintiff."); *Hewlett-Packard Co. v. Bausch & Lomb, Inc.*, 909 F.2d 1464, 1469 (Fed. Cir. 1990) ("[Contributory infringement] liability was under a theory of joint tortfeasance, wherein one who intentionally caused, or aided and abetted, the commission of a tort by another was jointly and severally liable with the primary tortfeasor."); Rich, *supra* note 15, at 525 ("Contributory infringement is an expression of the old common law doctrine of joint tortfeasors . . .").

<sup>51</sup> 143 F.2d 1003.

<sup>52</sup> *Id.* at 1003.

<sup>53</sup> *Id.* at 1004.

<sup>54</sup> *Id.*

<sup>55</sup> *Id.* Although the Ninth Circuit seems to indicate that all independent contractors are agents, an independent contractor is only an agent if the employer enjoys a right to control the activities of the contractor. See, e.g., *Gen. Bldg. Contractors Ass'n, Inc. v. Pennsylvania*, 458 U.S. 375, 395 (1982).

<sup>56</sup> No. Civ.A.2:02-CV-186, 2006 WL 151911, at \*3 (E.D. Tex. Jan. 19, 2006).

<sup>57</sup> *BMC Res., Inc. v. Paymentech, L.P.*, 498 F.3d 1373, 1381 (Fed. Cir. 2007).

<sup>58</sup> *Id.*

*B. Indirect Infringement*

Indirect infringement consists of both inducement of infringement<sup>59</sup> and contributory infringement.<sup>60</sup> Before codification by Congress in 1952, both forms of indirect infringement were contained within the judicially created doctrine of contributory infringement (which this Note will call “common law contributory infringement” for the sake of clarity).<sup>61</sup> Common law contributory infringement was an expression of the common law doctrine of joint tortfeasors.<sup>62</sup>

One who commands, directs, advises, encourages, procures, instigates, promotes, controls, aids, or abets a wrongful act by another has been regarded as being as responsible as the one who commits the act, so as to impose liability upon the former to the same extent as if he had performed the act himself. The liability in such case is joint and several.<sup>63</sup>

Most cases involving application of common law contributory infringement dealt with situations where a party would sell a component not technically covered by the claims of a product patent but which had no other use except with the patented product.<sup>64</sup> Additionally, implicit in the early common law definition of contributory infringement was the requirement of an underlying direct infringement for a finding of liability. After all, one cannot aid or abet a wrongful act without an underlying commission of the wrongful act—in this case, direct infringement.<sup>65</sup> Modern courts have reiterated this rule repeatedly.<sup>66</sup> The patent holder always has the burden of showing direct infringement for each instance of indirect infringement,<sup>67</sup> al-

<sup>59</sup> 35 U.S.C. § 271(b) (2006) (“Whoever actively induces infringement of a patent shall be liable as an infringer.”).

<sup>60</sup> 35 U.S.C. § 271(c) (2006) (“Whoever offers to sell . . . a component of a patented machine . . . or a material . . . for use in practicing a patented process . . . knowing the same to be especially made or especially adapted for use in an infringement of such a patent, and not . . . suitable for substantial noninfringing use, shall be liable as a contributory infringer.”).

<sup>61</sup> Rich, *supra* note 15, at 525 (stating that § 271 was developed from the doctrine of contributory infringement).

<sup>62</sup> See sources cited *supra* note 50.

<sup>63</sup> 52 AM. JUR. *Torts* § 114 (1944). See also RESTATEMENT (SECOND) OF TORTS §§ 875, 877 (1991).

<sup>64</sup> *Hewlett-Packard Co. v. Bausch & Lomb, Inc.*, 909 F.2d 1464, 1469 (Fed. Cir. 1990).

<sup>65</sup> The requirement that there be direct infringement can be seen as an outgrowth of the law of joint tortfeasors, which imposes liability if a party abets “a wrongful act.” 52 AM. JUR. *Torts*, *supra* note 63, § 114. In this case, the liability is for patent infringement, so the underlying “wrongful act” must have also have been infringement.

<sup>66</sup> *BMC Res., Inc. v. Paymentech, L.P.*, 498 F.3d 1373, 1380 (Fed. Cir. 2007); *Dynacore Holdings Corp. v. U.S. Phillips Corp.*, 363 F.3d 1263, 1272 (Fed. Cir. 2004); *Joy Techs., Inc. v. Flakt, Inc.*, 6 F.3d 770, 774 (Fed. Cir. 1993).

<sup>67</sup> *DSU Med. Corp. v. JMS Co.*, 471 F.3d 1293, 1303 (Fed. Cir. 2006).

though patent holders may prove direct infringement through circumstantial evidence.<sup>68</sup>

Common law contributory infringement was judicially created and applied until it was codified by Congress as part of the Patent Act of 1952.<sup>69</sup> One of the primary purposes of the Patent Act was to resurrect liability through contributory infringement, which at the time had been rendered ineffective.<sup>70</sup> Congress indicated no intention to substantially change the scope of what constituted “contributory infringement” through codification.<sup>71</sup> However, Congress did separate inducement from what was common law contributory infringement in 35 U.S.C. § 271(b) and codified common law contributory infringement in § 271(c).<sup>72</sup>

*I. Inducement.*—Patent infringement under the doctrine of inducement is governed by 35 U.S.C. § 271(b), which states, “whoever actively induces infringement of a patent shall be liable as an infringer.”<sup>73</sup> Thus, a finding of inducement of infringement requires: (1) direct infringement by a third party; (2) that the defendant’s acts “induced” this infringement; and (3) that the defendant had the affirmative intent to cause direct infringement.<sup>74</sup>

For the patent holder to show that a defendant “induced” infringement, the patent holder must prove the defendant’s activity “cause[d] the acts which constitute the infringement.”<sup>75</sup> Therefore, advertising an infringing use<sup>76</sup> or instructing how to engage in an infringing use<sup>77</sup> would qualify as inducement. Similarly, directing or providing a design for an infringing product is also inducement.<sup>78</sup>

<sup>68</sup> *Golden Blount, Inc. v. Robert H. Peterson Co.*, 438 F.3d 1354, 1362–63 (Fed. Cir. 2006) (“Circumstantial evidence can support a finding of infringement.” (citing *Moleculon Research Corp. v. CBS, Inc.*, 793 F.2d 1261, 1272 (Fed. Cir. 1986))).

<sup>69</sup> See Rich, *supra* note 15, at 535.

<sup>70</sup> *Id.* at 535–36.

<sup>71</sup> *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 485 n.6 (1964) (“The section was designed to ‘codify in statutory form principles of contributory infringement’ which had been ‘part of our law for about 80 years.’” (quoting H. R. Rep. No. 82-1923, at 9 (1952))); *Hewlett-Packard Co. v. Bausch & Lomb, Inc.*, 909 F.2d 1464, 1469 (Fed. Cir. 1990) (accord).

<sup>72</sup> *Hewlett-Packard Co.*, 909 F.2d at 1469; see also Rich, *supra* note 15, at 537 (“Paragraphs (b) and (c) [of § 271] deal with two kinds of contributory infringement.”).

<sup>73</sup> 35 U.S.C. § 271(b) (2006).

<sup>74</sup> *Kyocera Wireless Corp. v. Int’l Trade Com’n*, 545 F.3d 1340, 1353–54 (Fed. Cir. 2008).

<sup>75</sup> *DSU Med. Corp. v. JMS Co.*, 471 F.3d 1293, 1306 (Fed. Cir. 2006) (quoting *Hewlett-Packard Co.*, 909 F.2d at 1469).

<sup>76</sup> *Chiuminatta Concrete Concepts, Inc. v. Cardinal Indus., Inc.*, 145 F.3d 1303, 1311 (Fed. Cir. 1998).

<sup>77</sup> *Metabolite Labs, Inc. v. Lab. Corp. of Am. Holdings*, 370 F.3d 1354, 1365 (Fed. Cir. 2004).

<sup>78</sup> *Water Tech. Corp. v. Calco, Ltd.*, 850 F.2d 660, 668 (Fed. Cir. 1988).

To show that the defendant “actively” induced infringement, the patent holder must establish the defendant’s intent to do so.<sup>79</sup> First, the plaintiff must show that the defendant knew about the patent.<sup>80</sup> In addition, the patent holder must show that the defendant “actively and *knowingly* aid[ed] and abett[ed] another’s direct infringement.”<sup>81</sup> In other words, “inducement requires evidence of culpable conduct, directed at encouraging another’s infringement, not merely that the inducer had knowledge of the direct infringer’s activities.”<sup>82</sup>

2. *Contributory Infringement.*—Patent infringement under contributory infringement is governed by 35 U.S.C. § 271(c).<sup>83</sup> A finding of contributory infringement requires: (1) direct infringement by a third party; (2) that the defendant sold or imported a component of a patented machine or apparatus for use in a patented process; (3) that the sold or imported item is not a staple or commodity suitable for substantial noninfringing uses; and (4) that the defendant knew the item was made or adapted for use in such an infringement.<sup>84</sup>

The first two steps to find contributory infringement are relatively straightforward questions of fact. The third element addresses the nature of the item in question. Congress indicated that merely selling a staple (which, by definition, has substantial noninfringing uses)<sup>85</sup> or a commodity with substantial noninfringing uses would never give rise to liability.<sup>86</sup> There is no liability even if the merchant sold the staple or commodity with the knowledge or expectation that the purchaser would use it in infringing a patent.<sup>87</sup> Determination of whether an item is a staple or has substantial noninfringing uses is a question of fact.<sup>88</sup>

<sup>79</sup> *DSU Med.*, 471 F.3d at 1305.

<sup>80</sup> *Id.*

<sup>81</sup> *Id.* (quoting *Water Tech.*, 850 F.2d at 668).

<sup>82</sup> *Id.* at 1306.

<sup>83</sup> 35 U.S.C. § 271(c) (2006) (“Whoever offers to sell or sells . . . a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such a patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.”).

<sup>84</sup> *Id.*

<sup>85</sup> BLACK’S LAW DICTIONARY 1442 (8th ed. 2004) (defining “staple” as “[a]n unpatented thing or material that is a component of a patented product or is used in a patented process, but also has other practical uses”).

<sup>86</sup> *Rich*, *supra* note 15, at 542. *See also Alloc, Inc. v. Int’l Trade Com’n*, 342 F.3d 1361, 1374 (Fed. Cir. 2003) (holding that imported flooring that could be installed using a patented process, but could also be installed through nonpatented means, had substantial noninfringing uses).

<sup>87</sup> H.R. 3866, 81st Cong. § 4 (1949) (stating that “[t]he mere sale of any staple article . . . shall not of itself constitute contributory infringement, even though sold with the knowledge or expectation that it will be used in infringement of a patent”).

<sup>88</sup> *Cross Med. Prod., Inc. v. Medtronic Sofamor Danek, Inc.*, 424 F.3d 1293, 1314 (Fed. Cir. 2005).

The final element for a finding of contributory infringement is intent. The patent holder must show that the contributory infringer knew or should have known that the direct infringer would use the component in a product that would infringe on a patent.<sup>89</sup> In *Aro Manufacturing Co. v. Convertible Top Replacement Co.*, the Supreme Court held that liability under § 271(c) “require[s] a showing that the alleged contributory infringer knew that the combination for which his component was especially designed was both patented and infringing.”<sup>90</sup> Accordingly, in *Aro Manufacturing* the Court held the defendant liable for sales made after the date of a letter indicating knowledge of the patent, but held the defendant not liable for sales made before the date of the letter, absent any evidence of prior knowledge.<sup>91</sup>

## II. JOINT INFRINGEMENT

Direct infringement of a process patent requires the defendant to perform all the steps of the process.<sup>92</sup> Additionally, indirect infringement requires an underlying direct infringement.<sup>93</sup> These two requirements suggested a potential problem with process or method patents: it was unclear if patent holders could recover for infringement where one party did not complete all the steps of the patent, but instead several parties combined to complete all the steps of the patent. This is commonly called “joint infringement.”<sup>94</sup> It was uncertain whether the patent holder could claim direct infringement in this situation because of the lack of a single party performing every step. In the absence of some theory of liability under direct infringement, the plaintiff also could not claim indirect infringement because there would be no underlying direct infringement, foreclosing any form of liability at all.

Prior to the Federal Circuit’s recent ruling in *BMC Resources, Inc. v. Paymentech, L.P.*,<sup>95</sup> patent holders had used different theories of infringement to obtain relief from joint infringers, with varying degrees of success.<sup>96</sup> However, the Federal Circuit’s ruling in *BMC Resources* squarely addressed the issue of joint infringement<sup>97</sup> and in doing so rejected the theories presented in the previous cases.<sup>98</sup> The *BMC Resources* ruling also

---

<sup>89</sup> *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 488 (1964).

<sup>90</sup> *Id.*

<sup>91</sup> *Id.* at 489–91.

<sup>92</sup> See *EMI Group N. Am., Inc. v. Intel Corp.*, 157 F.3d 887, 896 (Fed. Cir. 1998).

<sup>93</sup> See *supra* notes 65–68 and accompanying text.

<sup>94</sup> Conversely, holders of patents that require multiple parties (divided infringement) to perform parts of a process may not be able to find a direct infringer at all. See Mark A. Lemley et al., *Divided Infringement Claims*, 6 SEDONA CONF. J. 117 (2005).

<sup>95</sup> 498 F.3d 1373 (Fed. Cir. 2007).

<sup>96</sup> See *infra* Parts II.A.1 & II.A.2.

<sup>97</sup> *BMC Res.*, 498 F.3d at 1378.

<sup>98</sup> See *infra* Part II.B.4.

pointed out a potential loophole in the current infringement scheme through which clever infringers may avoid liability.<sup>99</sup>

### A. *Pre-BMC Resources Joint Infringement*

Before the Federal Circuit's recent decision in *BMC Resources*, there were essentially two theories under which plaintiffs attempted to prove infringement in cases of joint infringement. In general, plaintiffs either attempted to show infringement under a broad reading of the "agency" theory of direct infringement, or they attempted to obtain relief under what has been called the "some connection" theory of joint infringement. In addition to these two theories, the Federal Circuit's opinion in *On Demand Machine Corp. v. Ingram Indus., Inc.* contained language that seemed to create a third theory of infringement that would have greatly expanded liability for joint infringers by requiring only that there be "participation" and a "combination" of actions between parties.<sup>100</sup>

1. *Joint Infringement Through an Expansion of the "Agency" Theory of Direct Infringement.*—Some plaintiffs had attempted, with limited success, to extend direct infringement to joint infringers in various district courts through an expansive reading of the agency theory of direct infringement.<sup>101</sup> Most notably, in *Mobil Oil Corp. v. W.R. Grace & Co.*, plaintiffs were able to expand direct infringement slightly beyond traditional notions of agency by holding a company liable when its customers completed the last step in the process.<sup>102</sup>

The patent in question in *W.R. Grace* involved a hydrocarbon conversion catalyst for the catalytic cracking of gas oil into gasoline.<sup>103</sup> The patent claimed a method for preparation of the hydrocarbon conversion catalyst,<sup>104</sup> a material central to the efficient conversion of crude oil into gasoline.<sup>105</sup> The method claim involved a series of steps ending with a heating step.<sup>106</sup> The defendant manufactured and sold catalysts designed and intended to be used by their customers for catalytic cracking.<sup>107</sup> The plaintiffs alleged the defendant infringed upon their patent by performing all the steps with the exception of the heating step, which was done by the defendant's customers.<sup>108</sup>

<sup>99</sup> See *infra* Part II.C.

<sup>100</sup> 442 F.3d 1331, 1344–45 (Fed. Cir. 2006).

<sup>101</sup> See *supra* Part I.A.3.

<sup>102</sup> 367 F. Supp. 207, 253 (D. Conn. 1973).

<sup>103</sup> *Id.*

<sup>104</sup> U.S. Patent No. 3,140,249 (filed July 12, 1960).

<sup>105</sup> *W.R. Grace*, 367 F. Supp. at 214.

<sup>106</sup> *Id.* at 253.

<sup>107</sup> *Id.* at 251.

<sup>108</sup> *Id.* at 253.

Agreeing with the plaintiffs, the district court ruled that the “[d]efendant knew at the time it sold each of its accused catalysts that . . . the catalysts purchased from Grace would be subjected to the . . . conditions specified [in the patent] . . . .”<sup>109</sup> The court went on to hold the defendants liable for direct infringement because the “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.”<sup>110</sup>

The decision in *W.R. Grace* adopted an expansive view of agency as applied to direct infringement. Normally, an agency relationship cannot be formed without a manifestation of intent that the agent acts on behalf of the principal.<sup>111</sup> However, in *W.R. Grace* there was no indication of explicit direction or control of the customers by the defendants. Although the defendants “[knew] full well that the infringement step would be in fact promptly and fully completed by [their] customers,” the defendants did not actually direct or control the customers to complete the final step.<sup>112</sup>

Despite the *W.R. Grace* plaintiffs’ success in convincing the district court to adopt an expansive view of agency principles, not all plaintiffs have had similar success. For instance, in *E.I. DuPont De Nemours & Co. v. Monsanto Co.*, the court declined to adopt the plaintiff’s expanded notion of agency.<sup>113</sup> The patent in question in *E.I. DuPont* (the “Anton patent”) claimed a process for manufacturing stain-resistant carpet fibers.<sup>114</sup> The Anton patent claimed a three-step process, consisting of: (1) forming a nylon copolymer; (2) adding pigment to the copolymer; and (3) spinning the copolymer into a fiber.<sup>115</sup> The defendant Monsanto practiced step one of DuPont’s patent and manufactured the copolymer.<sup>116</sup> Monsanto then sold the copolymer to another company, CaMac, who performed steps two and three of the patented process.<sup>117</sup> DuPont, citing to *Crowell*, argued that Monsanto was liable for direct infringement under a theory of joint infringement.<sup>118</sup>

In declining to find Monsanto liable for direct infringement, the district court reasoned it would be more appropriate to apply the agency principle set forth in *Crowell v. Baker Oil Tools*.<sup>119</sup> Thus, while Monsanto could be

---

<sup>109</sup> *Id.*

<sup>110</sup> *Id.*

<sup>111</sup> RESTATEMENT (THIRD) OF AGENCY § 1.01 (2006).

<sup>112</sup> *W.R. Grace*, 367 F. Supp. at 253.

<sup>113</sup> 903 F. Supp. 680 (D. Del. 1995).

<sup>114</sup> *Id.* at 719.

<sup>115</sup> *Id.* at 720.

<sup>116</sup> *Id.* at 734.

<sup>117</sup> *Id.*

<sup>118</sup> *Id.* at 735.

<sup>119</sup> *Id.*

considered CaMac's agent because it was paid to perform the first step of the process, CaMac could not be considered Monsanto's agent simply because it purchased the result of the first step of the process.<sup>120</sup> The district court's interpretation was consistent with traditional definitions of agency because, although Monsanto was arguably acting on CaMac's behalf in performing the first step, CaMac was not acting on Monsanto's behalf by purchasing the copolymer.

2. *"Some Connection" Theory of Joint Infringement.*—Until the recent ruling in *BMC Resources*, the only other theory of liability that offered patent holders relief for joint infringement was the "some connection" theory.<sup>121</sup> This theory allowed a patent holder to establish direct infringement by showing that "some connection" existed between joint infringers. Generally, patent holders were more successful in convincing judges that "some connection" was the appropriate standard<sup>122</sup> than in convincing judges to accept an expansive view of the agency theory.<sup>123</sup> Unfortunately, the courts never stated exactly how much connection was necessary to establish direct infringement.

The "some connection" theory was first articulated in *Faroudja Laboratories, Inc. v. Dwin Electronics, Inc.*<sup>124</sup> In *Faroudja*, the plaintiff held a four step method patent<sup>125</sup> for converting film file frames to television signals and improving the signal quality.<sup>126</sup> The first step of the method was "transferring each film frame to a television signal,"<sup>127</sup> and was performed by the film company.<sup>128</sup> The defendant manufactured and sold "line doublers" that could perform the remaining three steps of Faroudja's patent.<sup>129</sup> The whole patented process was not performed, however, until the defendant's customers connected the line doublers to their televisions.<sup>130</sup> Faroudja sought to hold Dwin liable under inducement of infringement, and argued

<sup>120</sup> *Id.*

<sup>121</sup> See *Applied Interact v. Vt. Teddy Bear Co.*, No. 04 Civ.8713 HB, 2005 WL 2133416, at \*5 (S.D.N.Y. Sept. 6, 2005); *Marley Mouldings Ltd., v. Mikron Indus., Inc.*, No. 02 C 2855, 2003 WL 1989640, at \*2 (N.D. Ill. Apr. 30, 2003); *Cordis Corp. v. Medtronic AVE, Inc.*, 194 F. Supp. 2d 323, 349 (D. Del. 2002); *Faroudja Lab., Inc. v. Dwin Elec., Inc.*, No. 97-20010 SW, 1999 WL 111788, at \*5 (N.D. Cal. Feb. 24, 1999).

<sup>122</sup> See, e.g., cases cited *supra* note 121.

<sup>123</sup> See, e.g., *Mobil Oil Corp. v. W.R. Grace & Co.*, 367 F. Supp. 207 (D. Conn. 1973).

<sup>124</sup> No. 97-20010 SW, 1999 WL 111788, at \*4 (N.D. Cal. Feb. 24, 1999).

<sup>125</sup> Essentially, the patent covered an improved version of the normal conversion of materials from movie film format to television format (the "3:2 pull-down method"). *Id.* at \*1.

<sup>126</sup> *Id.*

<sup>127</sup> *Id.* at \*2.

<sup>128</sup> *Id.* at \*7.

<sup>129</sup> *Id.*

<sup>130</sup> *Id.*

that the end users were direct infringers even though they did not perform the film-to-television transfer.<sup>131</sup>

The court granted summary judgment for Dwin, holding that there was no direct infringement.<sup>132</sup> The court acknowledged that other courts “have held parties liable for direct infringement of a process patent even where the various steps included in the patent are performed by distinct entities.”<sup>133</sup> However, the court went on to state that “these cases indicate that some connection between the different entities justified that finding.”<sup>134</sup> Thus, the court granted summary judgment because Faroudja could not show that the requisite connection existed between the users of the line doublers and the film-to-television transfer companies.<sup>135</sup>

Several other courts adopted the “some connection” theory in the wake of *Faroudja*. For example, in *Cordis Corp. v. Medtronic AVE, Inc.*, the district court held there was a sufficient connection between the defendant, a medical device corporation that produced stents, and the physicians that used the stents to uphold the jury’s finding of infringement.<sup>136</sup> In *Marley Mouldings Ltd. v. Mikron Industries*, the court denied the defendant’s motion for summary judgment because “it is undisputed that there is some type of connection” where a corporation performs all but the first step of a patent and custom orders materials which were prepared using the first step from a second company.<sup>137</sup> Likewise, in *Applied Interact v. Vermont Teddy Bear Co.*, the court similarly denied the defendant’s motion for summary judgment because there were triable issues that the claims were performed by the defendant or those customers with whom the defendant had “some connection.”<sup>138</sup>

Perhaps the strongest endorsement of the “some connection” theory was set forth by the court in *Hill v. Amazon.com, Inc.*<sup>139</sup> At dispute in *Hill* was a patented method<sup>140</sup> requiring the performance of steps on two computers, specifically a “main computer” and a “remote computer.”<sup>141</sup> Amazon.com filed for summary judgment, arguing that it performed only the

<sup>131</sup> *Id.*

<sup>132</sup> *Id.*

<sup>133</sup> *Id.* at \*5.

<sup>134</sup> *Id.*

<sup>135</sup> *Id.* at \*6.

<sup>136</sup> 194 F. Supp. 2d 323, 350 (D. Del. 2002).

<sup>137</sup> No. 02 C 2855, 2003 WL 1989640, at \*2 (N.D. Ill. Apr. 20, 2003). Note that it is likely that even under the “agency” theory the court could have found direct infringement because the second company operated under the direction of the first.

<sup>138</sup> No. 04 Civ.8713 HB, 2005 WL 2133416, at \*9 (S.D.N.Y. Sept. 6, 2005).

<sup>139</sup> No. Civ.A.2:02-CV-186, 2006 WL 151911 (E.D. Tex. Jan. 19, 2006).

<sup>140</sup> The disputed patent described a method and system for electronically cataloging items. *Id.* at \*1.

<sup>141</sup> *Id.*

steps on the “main computer” while their customers performed the steps on the “remote computer.”<sup>142</sup>

In denying the motion for summary judgment, the court stated that “a showing of ‘agency’ or ‘working in concert’ is not necessarily required” to support a finding of direct infringement.<sup>143</sup> Instead, the court held that “some connection between the parties is required to make out a case of direct infringement of a method claim when one party does not perform all of the steps of the method.”<sup>144</sup> The court further held that although proof of an agency relationship or concerted activity would show a sufficient connection, such proof is not required.<sup>145</sup> Thus, the court held that the “agency” theory was a mere subset of the “some connection” theory.<sup>146</sup>

3. *Dictum in On Demand Machine Corp. v. Ingram Indus., Inc.*—In addition to the “agency” theory and the “some connection” theory, the Federal Circuit suggested a very expansive view of joint infringement in *On Demand Machine Corp. v. Ingram Indus., Inc.*<sup>147</sup> Although the expansive language was dictum, it seemed to indicate the Federal Circuit’s willingness to consider direct infringement when multiple parties combined to perform all the steps of a method patent.

The patent at issue in *On Demand* was for a method of displaying computerized information about a book to a customer and, after the customer purchased the book, immediately manufacturing a single copy of the book.<sup>148</sup> The patented method involved providing customers with a computer containing the complete text of a book, its cover, and promotional materials.<sup>149</sup> The customer could browse the information and select a book for purchase; the book was printed and bound, preferably at the same site.<sup>150</sup>

On Demand Machine Corp. (ODMC) alleged that several parties combined to infringe their patent. Specifically, they alleged that Amazon.com’s customers provided themselves with the computers and that Amazon.com provided promotional materials to the customers by computer.<sup>151</sup> The customer purchased the book through Amazon.com, who in turn purchased the book from Lightning Source, a company that then printed and bound a sin-

<sup>142</sup> *Id.*

<sup>143</sup> *Id.* at \*2.

<sup>144</sup> *Id.*

<sup>145</sup> *Id.*

<sup>146</sup> *Id.* (stating that direction or control is one standard to which defendants must be connected for a finding of joint infringement).

<sup>147</sup> See 442 F.3d 1331 (Fed. Cir. 2006).

<sup>148</sup> *Id.* at 1334.

<sup>149</sup> *Id.*

<sup>150</sup> *Id.*

<sup>151</sup> *Id.*

gle copy or multiple copies of the book.<sup>152</sup> ODMC argued that through this process, Amazon.com and Lightning Source together infringed the patent.<sup>153</sup>

Although ODMC argued the joint nature of the infringement, the Federal Circuit held that the printing of a single copy of a book using computer technology and high speed printing was not the unique aspect of the patent; rather, the unique portion of the patent was the fact that the book was immediately printed when the customer purchased the book from a computer provided by the seller.<sup>154</sup> Thus, even if the parties could be joint infringers, there was no infringement at all because there was no immediate onsite printing.<sup>155</sup>

However, in response to the plaintiff's arguments for joint infringement, the Federal Circuit stated in dictum that it could "discern no flaw" in the jury instruction on joint infringement "as a statement of law."<sup>156</sup> The jury instruction provided:

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.<sup>157</sup>

Although this statement is dictum, it suggested approval for a strong expansion of direct infringement to multiple parties. Under the standard announced in this jury instruction, the only requirement for a finding of infringement of a method patent would be "participation and combination" between parties, instead of an agency relationship. Alternately, this language could suggest a tremendous expansion of the "some connection" theory such that the only "connection" required is "participation and combination." Either formulation would be a much more generous view of joint infringement than had ever been articulated by any court.

#### B. *BMC Resources, Inc. v. Paymentech, L.P.*

*BMC Resources* was the first case before the Federal Circuit to cite *On Demand* as a basis for an expansion of direct infringement to multiple parties.<sup>158</sup> *BMC Resources* involved two patents for a method of processing

---

<sup>152</sup> *Id.*

<sup>153</sup> *Id.* at 1335.

<sup>154</sup> *Id.*

<sup>155</sup> *Id.*

<sup>156</sup> *Id.*

<sup>157</sup> *Id.*

<sup>158</sup> *BMC Res., Inc. v. Paymentech, L.P.*, 498 F.3d 1373, 1378 (Fed. Cir. 2007).

debit transactions without a personal identification number (PIN).<sup>159</sup> The patented method provided an interface between a telephone and a debit card network whereby the customer could schedule bill payments via the keypad.<sup>160</sup>

1. *The Patents in Question.*—BMC's patents essentially consisted of the following steps:

1. Prompting the caller for a payment number identifying whether the caller wanted to pay with debit or credit.
2. Prompting the caller for an account number.
3. Prompting the caller for an amount to be paid.
4. Accessing a remote payment network with this information.
5. The remote network determining if there are sufficient funds in the account.
6. If there are sufficient funds, the remote network charging the entered account with the entered amount.
7. If there are sufficient funds, the remote network adding the entered amount into an account for the payee.
8. Informing the user of the transaction.<sup>161</sup>

Paymentech is in the business of processing financial transactions for clients as a third party.<sup>162</sup> In 2002, Paymentech began marketing PIN-less debit bill payments, which consisted of the following steps:

1. The customer calling a merchant to pay a bill.
2. The merchant collecting payment information and sending it to Paymentech.
3. Paymentech routing the information to a participating debit network, who would then send it to a financial institution.
4. The financial institution verifying the charge and, if authorized, debiting the charge amount from the account.
5. If the charge was authorized, the financial institution adding the amount to the account of the payee.
6. Returning information about the transaction from the financial institution, through Paymentech and the debit network, to the user.<sup>163</sup>

---

<sup>159</sup> *Id.* at 1373.

<sup>160</sup> *Id.*

<sup>161</sup> *Id.* at 1376–77.

<sup>162</sup> *Id.* at 1376.

<sup>163</sup> *Id.* at 1375–76.

After discovering that Paymentech was offering this service, BMC demanded that Paymentech pay for licensing of the process patents.<sup>164</sup> Paymentech refused and in turn filed a suit for declaratory judgment, prompting BMC to counterclaim for infringement of its method patents.<sup>165</sup>

An examination of the two methods shows that steps one through three of the BMC patents are equivalent to step one of Paymentech's service. Furthermore, steps five through eight of the BMC patents are equivalent to steps four through six of Paymentech's service. Finally, step four of the BMC patents is equivalent to step three of Paymentech's service. Thus, if Paymentech alone had performed all of the steps in its service, it would have been a direct infringer under § 271(a). However, the parties did not dispute that Paymentech did not perform several of the steps of the patents—specifically steps four, five, and six of its process.<sup>166</sup>

2. *Lower Court Proceedings.*—In the initial motions for summary judgment filed before a magistrate, BMC argued that Paymentech was liable for direct infringement because it set up, coordinated, and worked in concert with the merchants and debit networks to process the transactions.<sup>167</sup> The magistrate judge disagreed and granted summary judgment for Paymentech, holding that there was insufficient evidence to show any type of agency relationship or that Paymentech directed or controlled the debit networks.<sup>168</sup>

On review in the district court, BMC argued that there was sufficient evidence to show that Paymentech directed the debit networks and the financial institutions, and thus the networks and institutions were their agents.<sup>169</sup> The court found that BMC had not provided sufficient evidence suggesting Paymentech controlled the debit networks.<sup>170</sup> Furthermore, even if BMC had presented sufficient evidence of Paymentech's control of the debit networks, the court held that BMC had not presented *any* evidence to show that Paymentech directed or controlled the financial institutions.<sup>171</sup>

In the alternative, BMC argued that it did not need to show direction or control, but only had to show “some connection” with the other parties.<sup>172</sup> BMC argued that in cases where the patent clearly contemplates that multiple actors will perform the method and where the market makes it unlikely

<sup>164</sup> *Id.* at 1376.

<sup>165</sup> *Id.*

<sup>166</sup> *BMC Res., Inc. v. Paymentech, L.P.*, No. 3-03-CV-1927-M, 2006 WL 306289, at \*5 (N.D. Tex. Feb. 9, 2006).

<sup>167</sup> *Id.*

<sup>168</sup> *Id.* at \*6.

<sup>169</sup> *BMC Res., Inc. v. Paymentech, L.P.*, No. 3-03-CV-1927-M, 2006 WL 1450480, at \*4 (N.D. Tex. May 24, 2006).

<sup>170</sup> *Id.* at \*6.

<sup>171</sup> *Id.*

<sup>172</sup> *Id.*

that one party alone would perform the process, the correct standard for direct infringement should be “some connection” between parties instead of direction or control.<sup>173</sup>

BMC first argued that in *On Demand*, the Federal Circuit adopted a “participation and combined action” standard for the connection required. BMC alternately put forth several standards from the cases discussed above that could indicate the “connection” required in its case.<sup>174</sup> According to BMC, a plaintiff could establish “some connection” by showing one of the following: (1) the entities engage in the same relationship described in the patent; (2) the entities work together in concert to perform the method steps; (3) a contractual relationship exists between the parties; or (4) the entities work together in the ordinary course of business.<sup>175</sup>

In accepting the findings and recommendations of the magistrate judge, the district court rejected BMC’s argument that the Federal Circuit had adopted a new standard in *On Demand*, stating that the language was pure dictum.<sup>176</sup> The district court also held that direction or control of other parties performing the steps of the process was required for direct infringement.<sup>177</sup> In addition, the court held that even under the “some connection” standard proposed by BMC, there was no evidence of any of the four proposed forms of connection between Paymentech and the financial institutions.<sup>178</sup> Therefore, according to the court’s reasoning, under either standard summary judgment was appropriate.<sup>179</sup>

3. *Appeal Before the Federal Circuit.*—On appeal to the Federal Circuit, *BMC Resources* presented the issue of the proper standard for joint infringement by multiple parties.<sup>180</sup> BMC argued that the district court erred in dismissing its argument that *On Demand* sanctioned a finding of direct infringement when participants work together or in concert to perform the steps of a patented method.<sup>181</sup> The Federal Circuit affirmed the district court and rejected this contention. In doing so, the court noted that “[i]t is unlikely the [c]ourt intended to make a major change in its jurisprudence in the *On Demand* [statement] that was not even directly necessary to its decision in the case.”<sup>182</sup> The court went on to state: “*On Demand* did not change this court’s precedent with regard to joint infringement.”<sup>183</sup>

<sup>173</sup> *Id.*

<sup>174</sup> *Id.* at \*6.

<sup>175</sup> *Id.*

<sup>176</sup> *Id.* at \*3 n.3.

<sup>177</sup> *Id.* at \*6.

<sup>178</sup> *Id.*

<sup>179</sup> *Id.*

<sup>180</sup> *BMC Res., Inc. v. Paymentech, L.P.*, 498 F.3d 1373, 1378 (Fed. Cir. 2007).

<sup>181</sup> *Id.* at 1379.

<sup>182</sup> *Id.* at 1380.

<sup>183</sup> *Id.*

The Federal Circuit followed its rejection of BMC's argument with a clarification of the standard for joint infringement. First, the court reiterated the basic rule that direct infringement of a process patent requires a single party to perform the entire process.<sup>184</sup> Although the court acknowledged that in some circumstances a finding of joint infringement could be supported, it limited joint infringement to those situations where a controlling party contracted out steps of a patented process to another entity.<sup>185</sup> Thus, the standard for a finding of joint infringement requires "control or direction."<sup>186</sup>

The Federal Circuit's chief concern about expanding the rules governing direct infringement to reach independent conduct of multiple actors was that such an expansion would subvert the basis for indirect infringement.<sup>187</sup> Direct infringement is a strict liability offense limited to parties that practice every element of the claimed invention.<sup>188</sup> In contrast, indirect infringement requires a showing of intent.<sup>189</sup> Under BMC's proposed standard of direct infringement, inducing parties and contributory infringers could be strictly liable as joint infringers because they worked in concert with the direct infringers. Thus, "[u]nder BMC's proposed approach, a patent holder would rarely, if ever, need to bring a claim for indirect infringement."<sup>190</sup>

4. *The "Direction or Control" Standard.*—The Federal Circuit in *BMC Resources* accompanied its pronouncement of the "direction or control" standard with little meaningful instruction as to what type of relationships would fulfill the standard. However, the court did suggest that the relationship between parties would have to be a close one. First, the court cited its previous decision in *Cross Medical Products v. Medtronic Sofamor Danek* with approval, even though the defendants in that case had provided significant instructional assistance on how their customers could fulfill the last steps of the patent.<sup>191</sup> In addition, the *BMC Resources* court stated specifically that contracting out steps of a patented process would violate the "direction and control" standard.

One year later, the Federal Circuit clarified *BMC Resources* in *Muniauction, Inc. v. Thompson Corp.*, where it reaffirmed that where the actions of multiple parties combine to perform a claimed method, "the claim is directly infringed only if one party exercises 'control or direction' over

---

<sup>184</sup> *Id.*

<sup>185</sup> *Id.* at 1381.

<sup>186</sup> *Id.*

<sup>187</sup> *Id.*

<sup>188</sup> *Id.*

<sup>189</sup> *Id.*

<sup>190</sup> *Id.*

<sup>191</sup> See 424 F.3d 1293 (Fed. Cir. 2005). In *Cross Medical*, the court declined to find direct infringement where a medical device company provided and gave significant instructional assistance to surgeons who implanted the device and thereby fulfilled the last step of the patent. *Id.* at 1311.

the entire process such that every step is attributable to the controlling party, i.e., the ‘mastermind.’<sup>192</sup> The court stated explicitly that the “direction and control” standard is fulfilled “where the law would traditionally hold the accused direct infringer vicariously liable for the acts committed by another party that are required to complete the performance of a claimed method.”<sup>193</sup> Thus, the Federal Circuit’s requirement of direction or control of another party is identical to the traditional “agency theory” of direct infringement because the directed or controlled party is an agent under the standard set forth in *Crowell*.<sup>194</sup> The court’s holding in *Muniauction* thereby also definitively foreclosed direct infringement under the “some connection” theory and the “expanded” agency theory. District courts applying the standard have hewed fairly closely to a requirement that there be some form of contract or traditional master–servant relationship in order to find direct infringement.<sup>195</sup>

### C. Avoidance of Infringement Liability Through Conspiracy

The Federal Circuit in *BMC Resources* did see a potential problem in holding that only direction or control could result in liability for joint infringement. Specifically, the court acknowledged that “the standard requiring control or direction for a finding of joint infringement may in some circumstances allow parties to enter into arm’s-length agreements to avoid infringement.”<sup>196</sup> An arm’s-length agreement is one between two parties who are not related and who are presumed to have roughly equal bargaining power.<sup>197</sup> In acknowledging that parties might avoid infringement through arm’s-length agreements, the court recognized a troubling potential loophole: parties may conspire to infringe process patents, yet under the current infringement scheme, patent holders have no remedy at law.<sup>198</sup>

This loophole—conspiratorial joint infringement—would only be possible for process patents with no novel end product because no party would face direct infringement liability as the user or seller of the end product, and thus none of the conspiring parties could be liable for indirect infringe-

<sup>192</sup> 532 F.3d 1318, 1329 (Fed. Cir. 2008).

<sup>193</sup> *Id.* at 1330. See also RESTATEMENT (THIRD) OF AGENCY § 2.04 (2006) (“An employer is subject to liability for torts committed by employees while acting within the scope of their employment.”).

<sup>194</sup> See *supra* Part I.A.3.

<sup>195</sup> See, e.g., *Emtel, Inc. v. Lipidlabs, Inc.*, 583 F. Supp. 2d 811, 839–40 (S.D. Tex. 2008); *TGIP, Inc. v. AT&T Corp.*, 527 F. Supp. 2d 561, 578 (E.D. Tex. 2007); *Gammino v. Gellco Partnership*, 527 F. Supp. 2d 395, 398 (E.D. Pa. 2007).

<sup>196</sup> *BMC Res., Inc. v. Paymentech, L.P.*, 498 F.3d 1373, 1381 (Fed. Cir. 2007).

<sup>197</sup> BLACK’S LAW DICTIONARY 116 (8th ed. 2004).

<sup>198</sup> *Id.* Note that this loophole would only apply to process patents since patents that claim other inventions (such as machines and compositions of matter) are directly infringed by sale or use under § 271(a). Sale or use is a single step that usually cannot be split up for multiple parties to perform.

ment.<sup>199</sup> In theory, conspirators could still enter into arm's-length agreements to avoid direct infringement on the process of creating a patented machine or substance. However, in any such conspiracy there would doubtless be one party selling or using the patented end invention—it would make little sense to conspire to produce a patented machine and never use it or sell it. In such a scenario, the selling or using party would be liable for direct infringement under § 271(a), and all the other conspiring parties would be liable under principles of indirect infringement. Therefore, this loophole would only allow parties to avoid liability for infringing “process only” patents, such as business method patents, and “improved process” patents, where the process is unique but the final product has no patent protection.

After acknowledging the potential for conspiracies to avoid infringement, the Federal Circuit stated that “[t]he concerns over a party avoiding infringement by arm's-length cooperation can usually be offset by proper claim drafting. A patentee can usually structure a claim to capture infringement by a single party.”<sup>200</sup> The court pointed out that BMC could have drafted its claim to focus on one entity instead of having four different parties perform different acts within one claim.<sup>201</sup>

To understand the court's admonition, it is important to note that, although the statutory purpose of the claim in a patent is to describe an invention,<sup>202</sup> a properly drafted claim will describe the invention with an eye towards capturing potentially infringing uses.<sup>203</sup> Drafting claims to capture infringing uses requires the claimant to know the state of patent law as well as to engage in a mental exercise of envisioning potential infringing uses, many of which depend on technology yet to be invented.<sup>204</sup> In addition,

<sup>199</sup> The exact number of patents to which the loophole would apply is unknown because there is no simple way to determine if a patent for a manufacturing process claim results in a novel end product by looking at the patent. However, business method patents, which by definition have no resulting product, comprise a significant percentage of patent applications. In fiscal year 2006, business method patents accounted for 2.52% of all utility patents. See Patent Business Methods—Class 705 Application Filing and Patents Issued Data, <http://www.uspto.gov/web/menu/pbmethod/applicationfiling.htm> (last visited July 12, 2009) (showing 10,722 Class 705, or business method, patent applications in 2006); U.S. Patent Statistics: Calendar Years 1963-2006, [http://www.uspto.gov/web/offices/ac/ido/oeip/taf/us\\_stat.pdf](http://www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.pdf) (last visited July 12, 2009) (showing 425,967 total utility patent applications in 2006).

<sup>200</sup> *BMC Res.*, 498 F.3d at 1381 (citing Mark A. Lemley et al., *Divided Infringement Claims*, 33 *AIPLA Q.J.* 255, 272–75 (2005)).

<sup>201</sup> *BMC Res.*, 498 F.3d at 1381; see also *Emtel, Inc. v. Lipidlabs, Inc.*, 583 F. Supp. 2d 811, 841 (S.D. Tex. 2008) (stating that the alleged infringement could be one situation where proper claim drafting could have avoided the problem of finding a single direct infringer).

<sup>202</sup> See *supra* notes 22–23 and accompanying text.

<sup>203</sup> Thomas C. Fiala & Jon E. Wright, *Preparing and Prosecuting a Patent That Holds Up in Litigation*, 875 *PLI/PAT* 515, 521 (2006) (arguing that most patent applications are drafted in a vacuum because “the attorney drafting the case does not have perfect knowledge of . . . the technology against which the patent will ultimately be asserted”).

<sup>204</sup> *Id.*

even though the exact standard under which joint infringers could be held liable was uncertain before the *BMC Resources* decision, it has always been well established that infringement occurs where one party practices all the elements of a claim.<sup>205</sup> Therefore, even before the Federal Circuit's admonition, careful patent holders should have considered a range of hypothetical infringing uses during the claim drafting process and attempted to structure the claim so that one party would perform all the steps of the claim in any infringing use.<sup>206</sup>

However, the *BMC Resources* court's suggestion that patentees properly structure their claim to focus on one entity, while certainly good practice for patent applicants, fails to adequately close the loophole. First, it may not be possible to draft a claim that is novel when structured to target a single actor, even though the claim could be patentable when drafted in a non-unitary manner. Furthermore, there are some classes of inventions, such as certain distributed computing systems, where claims focused on the inputs and outputs of only one party may not be possible at all because of the nature of the invention.<sup>207</sup>

For an example of a patent that could not be drafted in a unitary way, consider a distributed data lookup system.<sup>208</sup> First, the request for a data location is sent to a client. The client requests the location from the closest server, which may or may not be a data location server. If the server is not a data location server, the server acts as a client and sends the request to another server. If this server is not a data location server, it also passes on the request, with the next server doing the same until a data location server is found. At this point, the data location server talks to the first client and returns the data location.

Suppose the novel part of this method is the "hot potato" nature of the passing on of requests among the servers. Thus, we could not describe the whole invention without describing the steps on at least two servers because the crux of the invention requires one server to not be a data location server and to pass the request on, and another to be a data location server and to talk to the first client.

For these types of patents, the court's ruling on joint infringement in *BMC Resources* implicates the exact type of loophole mentioned in the decision. Potential infringers, knowing that they face liability if they (alone or through their agents) perform all the steps of an invention, will enter into arm's-length contracts where there is no directing or controlling party and thereby avoid infringement.

---

<sup>205</sup> See *supra* notes 29–32.

<sup>206</sup> See Lemley, *supra* note 94, at 124–26.

<sup>207</sup> For an example of a patent of a distributed computing system, see U.S. Patent No. 5,475,819 (filed Jun. 17, 1994).

<sup>208</sup> This example is based on U.S. Patent No. 7,103,640 (filed Sept. 5, 2006).

To see how this conspiracy would work, consider a patent that cannot be drafted in a unitary manner<sup>209</sup> that claims a distributed method of calculating a value X through specialized hardware on two separate types of machines, Y and Z. After all the Y and Z machines do their parts and share their results with their counterparts, every machine has value X. If one party with an array of Y machines and another party with an array of Z machines conspired to pool their resources, both parties get value X, reaping the fruits of the conspiracy without infringing upon the patent.

Therefore, even though the Federal Circuit was correct in rejecting the expansive view of direct infringement advocated by BMC because it would vitiate the need for bringing claims of indirect infringement, there is a serious problem with the current framework of infringement. Allowing conspirators to infringe patents knowingly by splitting up the work among equals is contrary to accepted notions of equity, much in the same way that the doctrine of equivalents is “equitable” in the sense of general fairness. It also undermines the purpose of the patent system—to promote disclosure of inventions<sup>210</sup>—because patent holders would be less likely to disclose their processes if others could easily steal the process merely by splitting up the work with co-conspirators.<sup>211</sup>

As the body charged by the Constitution with promotion of the useful arts,<sup>212</sup> Congress should modify 35 U.S.C. § 271 to include a cause of action to close this loophole.<sup>213</sup> In the past Congress has shown a willingness to enact legislation to close similar loopholes when necessary. For instance, in passing § 271(f), Congress stated:

[This section] will prevent copiers from avoiding U.S. patents by supplying components of a patented product in this country so that the assembly of the components may be completed abroad. This proposal responds to the United States Supreme Court decision in *Deepsouth Packing Co. v. Laitram Corp.*,

---

<sup>209</sup> This could be due either to the fact that the novel portion of the invention is the structure of the distributed network, or to the fact that a unitary claim would not be novel while the distributed claim would be.

<sup>210</sup> *Hitzeman v. Rutter*, 243 F.3d 1345, 1357 (Fed. Cir. 2001).

<sup>211</sup> The general proposition that loopholes in the patent system act as a disincentive is central to the continued vitality of the doctrine of equivalents. Although the loophole implicated in *BMC Resources* likely occurs with less frequency than the replacement of a claim element with an equivalent (the “loophole” implicated in the doctrine of equivalents), the principles remain the same.

<sup>212</sup> U.S. CONST. art. I, § 8, cl. 8.

<sup>213</sup> The canon of statutory interpretation of *expressio unius est exclusio alterius* would generally hold that the courts could not expand infringement because Congress has codified patent infringement in 35 U.S.C. § 271. See *Hodges v. Rainey*, 533 S.E.2d 578, 582 (2000). However, the fact that the doctrine of equivalents continues to be a viable means of direct infringement without statutory basis, in addition to the legislative history indicating that the Patent Act of 1952 was intended only to rein in the misuse doctrine, could support the argument that the courts could fashion new forms of infringement without legislative action. However, this argument is beyond the scope of this Note. Furthermore, it is well within the legislature’s prerogative to expand infringement liability.

406 U.S. 518 (1972), concerning the need for a legislative solution to close a loophole in patent law.<sup>214</sup>

Similarly, in 1988, Congress passed § 271(g) to close another loophole. The statute imposes liability for infringement by importation, sale, or use of a product made in another country by a process patented in the United States.<sup>215</sup> In enacting the statute, Congress recognized that the remedies then available to patent holders were insufficient to fully protect the owners of process patents.<sup>216</sup>

The current situation offers yet another opportunity for clever infringers to manipulate the system to avoid liability. Therefore, this Note proposes a new form of infringement to close this loophole: conspiratorial infringement.

### III. CONSPIRATORIAL INFRINGEMENT

As mentioned above, historically the courts have treated patent infringement as a type of tort.<sup>217</sup> The creation of contributory infringement liability was a direct application of existing common law tort principles to this view of infringement.<sup>218</sup> This historical context strongly indicates that we should look to other existing tort principles for guidance in expanding infringement to close the conspiratorial joint infringement loophole described in *BMC Resources*. The cause of action for conspiratorial infringement proposed by this Note is an application of civil conspiracy to patent infringement.

#### A. Common Law Civil Conspiracy

The concept of conspiracy was developed in English common law in the thirteenth and fourteenth centuries.<sup>219</sup> Although the criminal action of conspiracy grew rapidly at common law, the civil action of conspiracy was not broadly accepted until the latter part of the eighteenth century.<sup>220</sup> In modern day America, nearly all states have some form of civil conspiracy on the books, and common law civil conspiracy was the basis of many sta-

<sup>214</sup> Patent Law Amendments Act of 1984, H.R. 6286, 98th Cong. (1984), 130 Cong. Rec. 28069 (Oct. 1, 1984).

<sup>215</sup> 35 U.S.C. § 271(g) (2006).

<sup>216</sup> *Bayer AG v. Housey Pharm., Inc.*, 340 F.3d 1367, 1374 (Fed. Cir. 2003) (citing H.R. Rep. No. 100-60, at 8-9 (1987)).

<sup>217</sup> *See, e.g., Dowagiac Mfg. Co. v. Minn. Moline Plow Co.*, 235 U.S. 641, 648 (1915).

<sup>218</sup> *See sources cited supra* note 50.

<sup>219</sup> Brand Lawless Cooper, *Civil Conspiracy and Interference with Contractual Relations*, 8 LOY. L.A. L. REV. 302, 305 (1975).

<sup>220</sup> *Id.*

tutory civil causes of action including the RICO statute<sup>221</sup> and various anti-trust statutes.<sup>222</sup>

To establish a civil conspiracy, the plaintiff must prove: (1) an association of two or more persons; (2) an unlawful objective; (3) an agreement, understanding, or “meeting of the minds” regarding the objective and the means of pursuing it; (4) commission of an unlawful act in furtherance of the agreement; and (5) injury resulting from the conspiracy.<sup>223</sup> Although not all states define the elements in the same way, most have formulations that approximate the elements set forth above.<sup>224</sup>

Most jurisdictions do not generally consider civil conspiracy to be an independent tort. In the majority of jurisdictions, a plaintiff can only bring suit for civil conspiracy if she was injured by an act that is itself tortious.<sup>225</sup> Thus, many courts have held that if the underlying actions do not state a cause of action themselves, allegations that the acts were the result of a conspiracy cannot “breathe life into a cause of action which was otherwise nonexistent.”<sup>226</sup> However, a minority of jurisdictions have held that an underlying wrongful act or tort is not required at all for a civil conspiracy.<sup>227</sup>

In addition, several states have established an exception to the underlying tort rule for cases where the unlawful or wrongful act is the result of a series of lawful acts done by multiple parties. One example of such an exception is the Nevada case of *Short v. Hotel Rivera, Inc.*<sup>228</sup> In *Short*, a band conductor alleged a conspiracy between his former employer (the hotel), his former band members, a rival conductor, and the local musicians’ union.<sup>229</sup>

<sup>221</sup> See *Beck v. Purpis*, 529 U.S. 494, 500–01 (2000).

<sup>222</sup> See *Pennsylvania ex rel. Zimmerman*, 836 F.2d 173, 182 (3d Cir. 1988) (“The vital allegations [in stating a cause of action under the Sherman or Clayton Acts] are similar to those in any civil conspiracy case.”).

<sup>223</sup> See James Lockhart, *Cause of Action for Civil Conspiracy*, 4 CAUSES OF ACTION 2d 517 (2007).

<sup>224</sup> For instance, some states require a single element of an agreement to achieve an unlawful goal, instead of two separate elements. See, e.g., *Markey v. Wolf*, 607 A.2d 82, 172 (Md. Ct. Spec. App. 1992). Some jurisdictions combine the first three elements described above by requiring “the operation and formation of a conspiracy,” which essentially combines the elements of association, unlawful objective, and agreement into the definition of a conspiracy. See, e.g., *Wright v. Cies*, 648 P.2d 51, 53 n.2 (Okla. Civ. App. 1982).

<sup>225</sup> See, e.g., *Beck*, 529 U.S. at 501 (“[I]t was widely accepted that a plaintiff could bring suit for civil conspiracy only if he had been injured by an act that was itself tortious.”); *Williams v. Mercantile Bank of St. Louis NA*, 845 S.W.2d 78, 85 (Mo. Ct. App. 1986); *Lesperance v. N. Am. Aviation, Inc.*, 31 Cal. Rptr. 873, 878 (Cal. Ct. App. 1963).

<sup>226</sup> *Williams*, 845 S.W.2d at 85 (quoting *Bockover v. Stemmerman*, 708 S.W.2d 179, 182 (Mo. Ct. App. 1986)).

<sup>227</sup> *Maleki v. Fine-Lando Clinic Chartered, S.C.*, 469 N.W.2d 629, 637 (Wis. 1991) (rejecting “the rule that, for a cause of action for conspiracy to lie, there must be an underlying conduct which would in itself be actionable”); *LaMotte v. Punch Line of Columbia*, 370 S.E.2d 711, 713 (S.C. 1988) (holding that what were otherwise lawful acts could become actionable in a conspiracy when the “object was to ruin or damage the business of another” (citing *Charles v. Tex. Co.*, 18 S.E.2d 719, 724 (S.C. 1942))).

<sup>228</sup> 378 P.2d 979 (Nev. 1963).

<sup>229</sup> *Id.* at 981.

Short charged that there was a conspiracy (1) to fire him from his previous position as band conductor (an action taken by the hotel), (2) to replace him with a band led by his rival and composed of many of his former musicians (actions taken by the hotel, the rival, and his former band members), and (3) to have the union interpret its rules in a way that prevented him from recruiting a new band to fulfill his existing contractual duties.<sup>230</sup> All of the individual actions performed by the defendants involved were legal.<sup>231</sup> The district court granted summary judgment, holding that there was no basis for a lawsuit.<sup>232</sup> The Nevada Supreme Court reversed, holding that “[w]hen an act done by an individual is not actionable because justified by his rights, though harmful to another, such act becomes actionable when done in pursuance of combination of persons actuated by malicious motives and not having same justification as the individual.”<sup>233</sup>

Several courts have formulated this exception in terms of coercion by numbers. These jurisdictions have held that “if the plaintiff can show some peculiar power of coercion possessed by the conspirators by virtue of their combination, which power an individual would not possess, then conspiracy itself becomes an independent tort.”<sup>234</sup> These jurisdictions have also held that “the essential elements of this tort are a malicious motive and coercion through numbers.”<sup>235</sup> This formulation and the exception in *Short* are similar because both focus on malicious motive and a wrongful act that can only be done by force of numbers or by multiple parties.

### B. *Prima Facie Case for Conspiratorial Infringement*

The cause of action for conspiratorial infringement proposed by this Note is the result of an application of the principles of civil conspiracy to the problem of joint infringement through arm’s-length contracts. The ultimate goal of conspiratorial infringement would be to impose liability on parties who enter into arm’s-length contracts with the intention of avoiding direct infringement. Conspiratorial infringement would require:

- (1) An association of two or more parties;

<sup>230</sup> *Id.*

<sup>231</sup> *Id.* at 983.

<sup>232</sup> *Id.* at 982.

<sup>233</sup> *Id.* at 986; *accord* *St. Luke’s Hosp. v. Indus. Comm’n*, 349 P.2d 995, 1000 (Colo. 1960); *Clark v. Sloan*, 37 P.2d 263, 266 (Okla. 1934); *Berger v. Pizza Hut of Am., Inc.*, 1992 WL 884521 (Va. Cir. Ct. Feb. 24, 1992).

<sup>234</sup> *People’s Nat’l Bank of Commerce v. First Union Nat’l Bank of Fla.*, 667 So. 2d 876, 879 (Fla. Dist. Ct. App. 1996); *accord* *Hayes v. Schweikart’s Upholstering Co.*, 402 S.W.2d 472, 482–83 (Tenn. 1966); *Kurker v. Hill*, 689 N.E.2d 833, 836 (Mass. App. Ct. 1998); *Baucke v. Adams*, 188 S.W.2d 355, 366–67 (Mo. Ct. App. 1945).

<sup>235</sup> *People’s Nat’l Bank*, 667 So. 2d at 879.

- (2) intent by the parties to circumvent a process patent by splitting up the steps among the parties;
- (3) an agreement, understanding, or “meeting of the minds” regarding circumvention of the patent and the means of pursuing it; and
- (4) performance of all the steps of the process by the parties through the agreement.

The elements of conspiratorial infringement closely track the elements of civil conspiracy. Both causes of action require an association of two or more parties and an agreement.<sup>236</sup>

Conspiratorial infringement would require performance of the patented process by the parties as a result of the agreement instead of the resulting injury requirement of civil conspiracy. Injury in fact for patent infringement occurs when a party performs at least one action that would constitute direct infringement.<sup>237</sup> Of course, circumvention of a patent through a conspiracy to split up the steps of the process is not direct infringement. However, requiring direct infringement as an injury would frustrate the purpose of conspiratorial infringement—to close the loophole created by the current definition of direct infringement. Actual circumvention is analogous to direct infringement in this situation. To circumvent the patent through the conspiracy and fulfill the injury requirement, the members of the conspiracy must collectively perform all the steps of the process patent. Therefore, collective performance of the patent replaces the injury requirement.

Conspiratorial infringement would also require intent to circumvent the patent instead of the unlawful objective element of civil conspiracy. As the Federal Circuit stated in *BMC Resources*, circumvention of a patent through arm’s-length contracts is not unlawful.<sup>238</sup> However, patent infringement avoidance through loopholes is undesirable because it undermines the purpose of the patent system.<sup>239</sup> The entire purpose of conspiratorial infringement is to make a very small subset of currently lawful circumventions unlawful; it is nonsensical to require an unlawful objective. Therefore, for the purposes of conspiratorial infringement the intent to circumvent a patent through a conspiracy is analogous to an independently unlawful objective and replaces the unlawful objective requirement.

However, in contrast to a cause of action for civil conspiracy, this proposed cause of action does not require an equivalent to the underlying wrongful act. This modification is due to the nature of the problem that conspiratorial infringement is meant to solve, namely the fact that the presence of the conspiracy itself prevents a finding of an underlying wrongful

---

<sup>236</sup> By definition, a conspiracy requires two or more people and an agreement. BLACK’S LAW DICTIONARY 329 (8th ed. 2004) (defining “conspiracy” as “[a]n agreement by two or more persons”).

<sup>237</sup> *Morrow v. Microsoft Corp.*, 499 F.3d 1332, 1339 (Fed. Cir. 2007).

<sup>238</sup> *BMC Res., Inc. v. Paymentech, L.P.*, 498 F.3d 1373, 1381 (Fed. Cir. 2007).

<sup>239</sup> See *supra* Part II.C.

act. The fact pattern for conspiratorial infringement is very similar to those circumstances where some jurisdictions have declined to require an underlying tort—cases such as *Short*, where the parties in the conspiracy perform lawful acts individually, but collectively cause a wrongful act.<sup>240</sup> It is antithetical to the principles of patent enforcement for clever infringers to avoid liability through conspiracy. Indeed, the purpose of a conspiratorial infringement cause of action is to impose liability in these cases. However, the performance of any individual step of the process—the equivalent of an individual act of the conspiracy—is not unlawful or individually wrongful. Conspiratorial infringement would thus implicate this exception to the underlying wrongful act requirement.

### C. *The Conspiracy and Strong Intent Requirements*

In rejecting BMC's argument for an expanded notion of direct infringement, the Federal Circuit's primary concern was that, under an expanded regime, patent holders would rarely have to file for relief through indirect infringement.<sup>241</sup> It is important that any proposed solution to close the loophole be tailored to the undesirable behavior to avoid a similar result. Conspiratorial infringement narrowly focuses the expansion of infringement to close this loophole by requiring both an agreement and strong intent.

The requirement of intent to circumvent the patent for conspiratorial infringement is important in two respects. First, not having an intent requirement would result in a strict liability offense, and the resulting cause of action would essentially be an expanded form of direct infringement. It is impossible to form the agreement without a shared intent, and if there is neither intent nor agreement then all that is left is the performance of the process by multiple parties—essentially what BMC had advocated should be considered direct infringement. Without an intent requirement, conspiratorial infringement would statutorily replicate the undesirable over-inclusiveness rejected by the Federal Circuit in expansive direct infringement.

Furthermore, it is important that the parties specifically intend to circumvent the process patent by splitting up the steps. There are many ways to circumvent a patent, and not all of them are disfavored by the law. For instance, it is both reasonable and legal to avoid performing all the elements of a process patent by taking out a claimed, yet unnecessary, step.<sup>242</sup> However, the current regulatory scheme for patent infringement does frown upon certain types of circumvention, such as inducing someone else to perform the infringement or contracting out certain steps. The intent require-

---

<sup>240</sup> *Short v. Hotel Rivera, Inc.*, 378 P.2d 979, 986 (Nev. 1963).

<sup>241</sup> *BMC Res.*, 498 F.3d at 1381 (“Under BMC’s proposed approach, a patentee would rarely, if ever, need to bring a claim for indirect infringement.”).

<sup>242</sup> This would not fulfill the “all-elements” test for direct infringement. See *supra* note 34 and accompanying text.

ment solves this problem by focusing on the wrongful means of circumvention: splitting up the steps of the process with conspirators to avoid direct infringement under *BMC Resources* because there is no direction or control.

The agreement requirement focuses conspiratorial infringement on the specific case where there is currently no liability. Broadly speaking, if multiple parties have collectively performed all the steps of a process, there are three possible scenarios regarding control: there can be one controlling party or mastermind, the parties can be equal partners, and the parties could not be working together at all. Of these scenarios, direct infringement under *BMC Resources* and *Muniauction* covers the first, and the last group would not be liable because they lack intent. Requiring an agreement would focus on the second scenario, the situation described in *BMC Resources*, where parties enter into arm's-length contracts to avoid infringing on a patent.

#### CONCLUSION

The current framework for patent infringement allows for a loophole whereby parties can enter into arm's-length contracts to perform a patented process and avoid infringement liability. Consequently, a patent holder can currently obtain redress for infringement if the infringer, either alone or through agents, performs all of the steps of the process, but not if there are multiple infringers that scheme to perform different steps of the process without a directing or controlling party. This loophole undermines the patent system by rewarding infringers for conspiring to avoid infringement liability and provides a disincentive for potential patent holders to invent and to disclose their inventions.

The Federal Circuit in *BMC Resources* firmly addressed the issue of performance of a process patent by multiple parties. The court correctly declined to expand direct infringement to cover multiple parties, but did expose the potential problem of infringement avoidance by conspiracy. Although the Federal Circuit pointed out that many patents can be drafted to focus on only one party, there are many process patents where it is not possible to draft the claims to focus on one entity. In addition, the rule does not cover those patents that may not have been optimally drafted, but were nevertheless drafted in good faith reliance on alternate theories of direct infringement that were available at the time. These patent holders would not have any relief under the law if parties formed a conspiracy to avoid infringement of their patent.

Congress should change the current infringement structure to close this loophole, as they have in several other instances. The cause of action proposed here, modeled after common law civil conspiracy, is narrowly focused on bad actors that conspire to circumvent direct infringement liability. Conspiratorial infringement is narrowly tailored to impose infringement on the loophole described in *BMC Resources*. By creating such a cause of action, the legislature can provide patent protection against unfair

conspiracies without casting such a broad net as to hold unsuspecting parties inadvertently liable.