2006-1503

In The
United States Court of Appeals
For The Federal Circuit

BMC RESOURCES, INC.,

Plaintiff – Appellant,

v.

PAYMENTECH, L.P.,

Defendant – Appellee,

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF TEXAS IN CASE NO. 3:03-CV-1927, JUDGE BARBARA M.G. LYNN.

BRIEF OF DEFENDANT – APPELLEE PAYMENTECH, L.P.

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Dated: November 29, 2006

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CERTIFICATE OF INTEREST

Pursuant to Federal Circuit Rule 28(1) and 47.4, Counsel for the Appellee, Paymentech, L.P., certifies the following:

1. The full name of every party or amicus represented by me is:

   PAYMENTECH, L.P.

2. The name of the real party in interest (if the party named in the caption is not the real party in interest) represented by me is:

   None.

3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of the party or amicus curiae represented by me are:

   J.P. MORGAN CHASE & COMPANY

   FIRST DATA CORPORATION.

4. The names of all law firms and the partners or associates that appeared for the party or amicus now represented by me in the trial court or agency or are expected to appear in this court are:

   John M. Cone, formerly of Akin Gump Strauss Hauer & Feld LLP and now of Hitchcock Evert LLP

   Sarah A. Paxson of Akin Gump Strauss Hauer & Feld LLP appeared in the trial court.

November 29, 2006

John M. Cone

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STATEMENT OF RELATED CASES

Pursuant to Federal Circuit Rules 28(a)(4) and 47.5, Counsel for the Appellee, Paymentech, L.P., states the following:

(a) No other appeal in or from the same civil action or proceeding in the lower court was previously before this Court or any other appellate court.

(b) there are no cases known to counsel to be pending in this or any other court that will directly affect or be directly affected by this Court's decision in the pending appeal. Counsel is aware of the case styled *Freedom Wireless, Inc. v. Boston Communications Group, Inc.*, 06-1020, -1078, -1079, -1098, -1099 previously pending before this court and to which the amicus curiae is a party, but understands the case has been settled.

I. <u>JURISDICTIONAL STATEMENT</u>

Appellee agrees with the Statement of Jurisdiction in the Appellant's brief.

II. <u>STATEMENT OF THE ISSUES</u>

The Appellant that the appeal presents three issues, and that all three are questions of law, which this Court reviews *de novo*.

Appellee agrees with the Appellant's Statements of Issues 1 and 2. Appellant statement of Issue 3, however, is not accepted. Correctly expressed the issue is:

Did the District Court err in granting summary judgment of no contributory infringement based on its finding that the merchants did not directly infringe the patents?

III. STATEMENT OF THE CASE

The District Court for the Northern District of Texas (Lynn, D.J.)granted judgment under Fed. R. Civ. P. 56 in favor of Appellee on its Cross-Motion for Summary Judgment of No Infringement. The court held that Appellee had not directly infringed claims 1 and 2 of U.S. Patent No. 5,715,298 (the '298 Patent) and claims 6 and 7 of Patent No. 5,870,456 (the '456 Patent) ("the Asserted Claims"). The Asserted Claims relate to methods whereby a customer can pay a bill over the telephone using a credit or debit card. The court found that the Appellee had performed some, but not all, of the steps of the Asserted Claims and that there was no record evidence on which it could be held vicariously responsible for the actions of the remote payment networks and financial institutions which, it is undisputed, carried out other steps which Appellant contends in aggregate amount to performance of all the claimed steps. The court also dismissed Appellant's claims of contributory infringement and inducement of infringement because there was no direct infringement. At the request of the parties, it dismissed without prejudice the Appellee's invalidity counterclaims.

The district court did not need to find, and did not find, that the summary judgment record shows that what was done, admittedly by different entities, met each limitation of the claims. That is to say, the district court made no finding that all the steps of the claimed method were performed, even if the actions of all the relevant entities were aggregated.

The claimed invention in this case is not PINless Debit Bill Payment ("PDBP"). The independent claims of both the '456 Patent and the '298 Patent expressly cover use of both credit and debit cards[1]. Indeed, the specification expressly states that "the term 'debit card' shall be construed to mean both debit and credit card." '298 Patent, Column 2 ln 2-4, A73.

Appellee generally accepts the portion of Appellant's Statement of the Case starting at the first complete paragraph on page 5 and ending on page 7 in the Appellant's Brief. Appellant's Motion to Compel, however, is irrelevant to the issues on appeal. It was not a Rule 56(f) motion and Appellant itself filed a summary judgment motion, contending there were no issues of material fact as to infringement.

The district court considered recent decisions of this Court before entering its judgment. After BMC objected to the magistrate judge's recommendations, the district judge conducted her own "independent review of the file and pleadings" before accepting the findings and recommendations of the magistrate judge. A3. The district judge fully considered *On Demand*, found it did not constitute binding

[1] Of the Asserted Claims, only claim 2 of the '298 Patent is limited to debit cards.

authority on joint infringement and properly followed the established law from this Court.

IV. STATEMENT OF THE FACTS

The patents in suit relate to using a credit or debit card to pay a bill over the telephone. Before the priority date of the patents, financial institutions had established pre-approved consumer credit systems allowing consumers to pay bills by agreeing that a charge be made on a credit account associated with a card. This agreement was generally given by signing a charge receipt.[2]

The credit card companies generally required the merchant to obtain an authorization from the card issuing institution before accepting the card. The institutions set up remote payment networks, such as VisaNet, to act as interfaces between them and the merchants. Third-party service providers also started to service the merchants by handling their communications with the networks. One of these service providers is Paymentech. Paymentech receives authorization requests from merchants, transmits them to the networks and reports the responses back to the merchants. In addition, Paymentech handles the settlement during which funds from the institution are transferred to the merchant.

Some time in the late 1970's/early 1980's, the institutions began to offer a card that allowed direct access to money previously deposited with the institution, for example, a bank checking account. A2981-82. Using these "debit" cards, customers could pay with their own money rather than paying with a credit card

[2] *See* Expert Report of Anthony Hayes. A2978-2992.

and increasing a debt on a credit account. The institutions established additional payment networks, the ATM networks, to handle debit card transactions. The third-party service providers extended their services to cover debit card transactions.

Because debit card transactions result in an immediate withdrawal of money from the customer's account, the institutions and the ATM networks wanted additional security compared to credit card systems. They achieved this by a system of personal identification numbers, "PINs." The network regulations required that a debit card authorization request include the PIN, delivered in encrypted form. The network regulations also required that the customer, not the merchant, key in the PIN. Thus, a merchant needed a device which allowed the customer to input the PIN, which then automatically encrypted the PIN and delivered it as part of the authorization request. The PIN requirement prevented debit cards being used over the telephone, unless the caller had a device capable of adding the encrypted PIN. There was, however, an alternative that allowed debit cards to be used over the telephone. Many debit cards were co-branded and carried not only an ATM network logo, but also the logo of one of the credit card networks, such as VisaNet. A2217. Until April 2003, the card associations' "Honor All Cards" policies required, for example, that a VISA branded debit card be accepted in all situations in which a VISA credit card was accepted. A2981.

This included “Card Not Present” situations, in which it was not possible to deliver an encrypted PIN, for example mail order and telephone order payments. A2981-84. Prior to the patents, VisaNet allowed VISA branded debit cards to be used to pay bills over a telephone without delivery of a PIN. These were PINless debit transactions. A1011-12. These transactions were processed through VisaNet, a credit card network, but resulted in money being taken from the customer’s bank account. A3046.

Accordingly, prior to the patents, it was possible to use a debit card to pay a bill over the telephone without delivering an encrypted PIN. When this happened, the transaction was routed through a credit card network, such as VisaNet, as opposed to an ATM network. From the point of view of the consumer, there was really no difference. However, the fee charged by the credit card networks for processing a debit card transaction was generally proportional to the amount of the transaction. In contrast, the ATM networks generally charged a flat fee. This meant that for many transactions, the merchant paid considerably more to process a debit card transaction through a credit card network compared to the cost of processing it through an ATM network. A589-90.

As the popularity of debit cards increased and customers wanted to use them in non-PIN situations, the ATM networks realized that they were losing business. To recapture this business, three of the ATM networks, PULSE, STAR and NYCE, decided to allow certain classes of merchants to accept debit cards without a PIN for certain classes of transactions, which could be processed through the three ATM networks. A802.

When the three ATM networks changed their regulations, Paymentech was already processing debit card transactions, it knew the network rules, and had existing relationships with merchants who wanted to use PINless debit. It needed to reformulate the authorization request message to reflect the fact that although the transaction was based on a debit card, and was to be processed through an ATM network, there was no PIN in the message. A1036-37.

The increased use of debit cards by the partial relaxation of the PIN requirement, was not Paymentech’s doing. It had no say in whether it happened or not. It was a decision taken by the networks. Indeed, the networks had known that the requirement for a PIN could be dropped, but delayed doing so to bolster the security of the debit card system. A2991.

Appellant’s discussion of Paymentech’s Debit Enable Salem project is a red herring. It was not undertaken specifically to allow Paymentech to process PINless debit bill payment transactions (“PDBP”). A1024. Paymentech has two computer systems: one, known as Stratus, in Salem, New Hampshire and the other, known as Tandem, in Tampa, Florida. Historically, the system had worked with merchants and processed credit card transactions. The Tampa system was directed more to the banks and in 2003 had connections to the ATM networks, which the Salem system did not. Paymentech decided that the Salem system needed to process debit card authorization requests from merchants. Accordingly, the Salem system was upgraded to allow this. A2636.

Paymentech does not perform all of the steps of any of the Asserted Claims. Indeed, Appellant does not dispute that four independent entities each performs some, but not all, of the steps. Appellee performs some, but others are performed by the merchants whose bills are to be paid, by the financial institutions which issued the cards used for payment and by the payment networks.[3] There is no evidence in the record that supports the position that Appellant controls or directs the acts of the payment networks or the institutions. Put another way, there is no evidence to support a finding that Appellant has steps of the claimed method performed for it by the payment networks or institutions. Indeed, the record shows that the networks and the institutions set the rules governing use of their payment cards and direct and control the actions of anyone using those cards. A636, A843, A2692. In so doing they are not acting on behalf of Paymentech.

The claimed invention covers generally using debit or credit card to pay bills over the telephone. It is not, as Appellant suggests, limited to the use of debit cards, without transmission of an encrypted PIN when the authorization is handled

[3] Charts showing which entity performs which steps (if the step is performed) are at A2521-5.

through an ATM network, and is performed in real time by a single message transaction[4].

Claim 6 of the ‘456 Patent expressly states that the consumer can select “credit or debit forms of payment.” The claim requires participation of a “remote payment network,” which necessarily includes credit card networks, such as VisaNet, because the ATM networks are not able to handle credit card transactions.

There is no language in the Asserted Claims restricting the process to a single message form, nor requiring that the process happen in real time. Indeed, settlement, that is to say, funds reaching the merchant, never happens while the consumer is on the telephone. Settlement, that is to say money reaching the merchant, occurs later as a batched transaction after the consumer’s telephone call to the merchant has ended, and only when the merchant sends a request to Paymentech. A1117, 3425.

Although BMC claims to have “pioneered” real-time electronic bill payment, it was already known in the art before the filing of the patents. For example, prior to the relevant date of the patents, the State of Wisconsin allowed people to pay vehicle registration fees over the telephone using a credit card. The

[4] Of the Asserted Claims, only claim 2 of the ‘298 Patent is limited to the use of debit cards and this claim does not exclude the use of a credit card network as the processing network.

system included the steps of obtaining an authorization from the credit card company during the telephone call. A2228-38.

In fact, the patents cover broadly paying a bill over the telephone using a debit card without a PIN. Not only was this not new, to the extent it contemplated processing the transaction through the ATM networks, as opposed to the credit card networks, it could not be done at the time and the patent specifications do not disclose how to do it. At the time the patent application was filed, because of their self-imposed rules, the ATM networks would not process a debit card transaction without the delivery of an encrypted PIN. The patents provide no teaching as to as to how to circumvent that requirement. Although BMC contends its invention provides the "assemblage of transaction security" necessary to process PINless debit through an ATM network, the claims contain no elements that provide this security. '298 Patent Column 10 ln 36, 37. A77.

It was not until three of the ATM networks changed their rules and agreed, for certain merchants and certain classes of transactions, to allow the use of debit cards without the delivery of a PIN, that anyone could process such transactions through an ATM network. Even today, only three of the many ATM networks allow this and each restricts the classes of merchants and type of transactions for which a debit card without a PIN can be used. A2989-90. There is no disclosure of these limitations or how to overcome them in the patents. A merchant who is not approved by the networks cannot process PINless debit transactions through an ATM network, but must use one of the credit card networks. A911-12. The merchants cannot change or avoided these restrictions, because the networks control the systems.

In the context of PDBP, Appellee Paymentech has no direct contact with the bill paying public. A2825. It is purely an intermediary between a merchant whose customers want to pay bills over the telephone and the remote payment network serving the financial institutions that issue the cards the customers want to use. Paymentech had been doing this long before the date of the patents in suit. A2681.

The green light for PDBP came not from Paymentech, but from the networks, which, as discussed above, initially restricted transactions by required delivery of a PIN as part of the authorization request for a debit card transaction. It was the networks that had the power to waive that restriction for certain classes of transactions. It is still not possible for a merchant to accept a PINless debit card as payment for each and every transaction, and most merchants cannot use them at all.

When the green light came, Paymentech already had in place computer systems and message coding specifications for handling authorization requests for both debit and credit card transaction. It uses the same systems and message specifications now for both credit and debit transactions and PINless and PIN based debit transactions. A2823-24. The message specification for a PINless transaction is identical to that for a PIN based transaction, except that there is no data representing the PIN and the message instructs the computer not to look for it. A2824.

Paymentech's involvement in a bill paying is very limited. It plays no part in collecting information from the consumer, which is done by the merchant. A2291. When Paymentech receives an authorization request from a merchant, it sends it to the appropriate network. The network sends it to the issuing institution, which either approves or declines the transaction. The institution communicates its decision to the network, which relays it to Paymentech, which relays it to the merchant. The same process is used for all card-based transactions, credit or debit, PIN based or PINless. A2290-91.

Long after the authorization process, and in response to a request from the merchant, Paymentech will transfer funds received from the institution to the merchant for crediting to the customer's account with the merchant. This is invariably done as a batch transaction and does not happen until Paymentech receives a settlement request from the merchant. A580-81.

Appellant argues that Paymentech should be charged vicariously with the actions of Verizon Wireless, relying heavily on the preparation that went into Paymentech's starting to process authorizations for Verizon Wireless. The parameters Paymentech agreed with Verizon Wireless, however, were the networks' rules. Paymentech placed no requirements on Verizon Wireless' actions or the contents of its message or the content of its IVR scripts, other than those required to comply with network rules. A528, 594.

The district court held there were fact issues as to whether the relationship between Verizon Wireless and Paymentech could make Paymentech responsible for Verizon Wireless' acts. The summary judgment of non-infringement was not granted because Appellant failed to create an issue of fact as to that relationship. It was granted because there was no evidence sufficient to create a fact issue as to Paymentech's responsibility for the acts of the two other entities needed to perform all the steps of the claimed method, namely, the institutions and networks. The indemnification of Verizon Wireless is irrelevant on this. There is no evidence of any indemnification between Paymentech and the networks and financial institutions.

Although Appellant constantly contends that the claimed invention is performed by the "combined actions" of Paymentech, the networks, the financial institutions and the merchants, in no case is more than one entity involved in the performance of any one of the claimed steps. The claimed steps are performed by four separate entities. Each performs it own steps alone. There are no combined acts, only individual acts, performed sequentially. If "participation and combined actions" covers this situation, that test means no more than that each entity performs one or more of the claimed steps, and that, taken together, these steps make up the claimed methods.

Since the three ATM networks, PULSE, STAR, and NYCE allowed some merchants to accept debit cards for payment of some transactions without a PIN, Paymentech has provided transaction processing services for four merchants, Verizon Wireless, Allstate, Alltel and CenturyTel. Verizon Wireless ("VW") allows customers to pay cell phone accounts over the telephone using a debit card. The customer calls a 1-800 number and is connected to VW's IVR system. If the customer calls using the cell phone for which payment is to be made, the system recognizes the telephone number. If not, the caller is prompted to enter the telephone number for which payment is intended. A2590, 2594. VW also prompts the caller to enter the number of the card to be used for payment and establishes the amount to the paid. A2590-91. The record evidence does not establish whether VW prompts the caller to enter the amount to be paid, or accepts payment of the amount due. VW then sends an authorization request to Paymentech. Paymentech determines the appropriate remote payment network to process the transaction and sends the authorization request to that network. When the network receives the request it sends it to the financial institution that issued the card.

At this stage, and not prior to this stage, the validity of the card number is checked (neither Paymentech nor the merchant have sufficient information to do this). A2824-25. The institution, or in limited circumstances the network, determines whether or not to accept the transaction. If it is accepted, money is taken from the customer's account at the institution and an approval message is sent back to Paymentech, which in turn, sends that approval to the merchant. The merchant is able to tell the customer that the payment has been made and the call terminates. At a later time, VW sends a new message requesting Paymentech to transfer the money to VW's bank account. This is invariably done in a batch transaction in which numerous individual transactions are aggregated and a single transfer of money made from Paymentech's bank account to VW's. There is no record evidence how the other merchants, Allstate, Alltel and CenturyTel, operate PDBP.

V. **SUMMARY OF THE ARGUMENT**

This case is about vicarious liability. Under what circumstances is a defendant liable for the acts of another that the patentee contends amount to infringement of its process patent when aggregated with steps performed by the defendant? It is black letter law, under the "all elements" rule, that infringement requires that every element of the claimed invention be taken.[5] There is no infringement if even one element is not. Accordingly, for direct infringement of a method claim, all the steps of the claimed method must be performed. In addition, a person is generally liable for the acts of another only under rules of vicarious liability in circumstances showing that the person has the right to control the conduct of the other.[6] In the context of patent infringement, a defendant cannot, however, avoid liability for direct infringement by having someone else carry out one or more of the claimed steps on its behalf. A defendant can also be liable for inducing or contributing to the direct infringement by another. Beyond that, the law does not recognize joint infringement, or any other theory of vicarious liability for patent infringement. *On Demand* did not change this law.

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[5] *Warner Jenkinson Co*., *Inc*. *v*. *Hilton Davis Chemical Co*., 520 U.S. 17, 29 (1997); *Canton Bio-Medical*, *Inc*. *v*. *Integrated Liner Tech*. *Inc*., 216 F.3d 1367, 1370 (Fed. Cir. 2000); *Joy Tech*., *Inc*. *v*. *Flakt*, 6 F.3d 770, 773 (Fed. Cir. 1993).

[6] *Engle v*. *Dinehart*, 213 F.3d 639 (5th Cir. 2000), citing Restatement (Second) of Agency §220 cmt. (d).

Paymentech does not perform all the acts required by the Asserted Claims. Different steps in the claimed method are performed by (1) the merchant, whose customers wish to pay their bills using a card, (2) the financial institution which issued the cards and knows the balance of credit or funds available on the cards, (3) the remote payment network appointed by the institution to act as a gateway for card payment messages, and (4) Paymentech which interfaces between the merchants and the networks.

The district court held that for Paymentech to be liable for direct infringement based on the aggregated actions of the merchants, the networks and the institutions, there must be evidence that it directed or controlled the actions of the merchants, the networks and the institutions. A15. The record on summary judgment, the court held, was sufficient to create an issue of fact as to whether Paymentech directed or controlled the merchants, but contained no evidence creating a fact issue as to its direction or control of the networks or the institutions. A13, 14. Indeed, there is no evidence in the record the Paymentech even communicates with the institutions in the context of PDBP.

If the district court's view of the law of infringement is correct, and the law requires that the alleged infringer control or direct another party's performance in order for it to be deemed to have performed those steps and be held vicariously liable for them, then Paymentech wins. BMC, however, contends that Paymentech is liable as a direct infringer if other entities performed those steps that Paymentech did not perform. According to this view, each of the other entities would similarly be liable as a direct infringer because of their "participation and combined action."

Appellant's so-called "participation and combined action" test is no test at all. It requires only that the acts of separate entities, aggregated, amount to performance of every element of the claimed method and makes each entity vicariously liable for the acts of the others. This is not the law and should not become the law.

Appellant is proposing an enormous increase in potential liability for patent infringement. Joint infringement would multiply the parties to patent litigation, as each defendant filed third-party claims against others whose acts were counted by the patentee towards infringement. Patentees could draft claims expressly to catch deep pocket, essentially passive, parties, who participated in claimed methods. Because every entity which performed even one of the steps of the claimed method would be liable for the entire infringement, patentees could look for windfall recovery from multiple defendants under the reasonable royalty theory of damages.

Inventive methods can be protected without this great expansion in liability. Claims can almost always be drafted so that only one entity performs all the steps. Just because BMC chose to draft its claims in such a way that no one person becomes a direct infringer does not mean that the law of infringement should be expanded to assist it. The rules of infringement are not a surprise. The patentee should have drafted more wisely.

VI. ARGUMENT

A. PAYMENTECH HAS NOT DIRECTLY INFRINGED THE ASSERTED CLAIMS

1. This Court Does Not Recognize Joint Infringement

In its only case that directly decided a claim of joint direct infringement, this Court found a manufacturer not liable for direct infringement where it performed only the first step of a two-step method claim.[7] BMC has no real response to the Federal Circuit's clear statement in *Fromson*, arguing only that it is dicta and therefore should be discounted. Contrary to BMC's characterization of *Fromson*, this statement was directly relevant to the issue before the Court.[8] The Court stated the issue as simply "whether the district court erred in finding no infringement or contributory infringement of [the asserted] claims."[9] Regarding infringement of an asserted method claim, the Court found that:

> Because the claims include the application of a diazo coating or other light sensitive layer and because Advance's customers, not Advance, applied the diazo coating, Advance cannot be liable for direct infringement with respect to those plates.[10]

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[7] *Fromson v. Advance Offset Plate, Inc.*, 720 F.2d 1565, 1568 (Fed. Cir. 1985) (finding no direct infringement by manufacturer who performed first step of process claim even where its customer performed the other step of the claim).

[8] *Id*. at 1569.

[9] *Id*.

[10] *Id*. at 1568.

The statement that Advance cannot be liable for direct infringement of the method claim can certainly be characterized as a holding in the case, as it goes directly to the disposition of the case and the issue as stated by the Court, namely assessing the lower court finding of no infringement.[11]

Regardless of whether the *Fromson* statement on direct infringement is considered a holding or dicta, it is supported by strong policy arguments against a theory of joint direct infringement. Allowing the individual acts of unrelated parties to add up to direct infringement under section 271(a) makes the remainder of the statute superfluous. Direct infringement is a strict liability tort: even if an entity does not know it is infringing, it can be held liable if it "uses…any patented invention, within the United States…"[12] Both inducement of infringement and contributory infringement require an intent to cause acts of infringement or knowledge that an apparatus used in a process was especially adapted for use in an infringement and has no other non-infringing uses.[13] If BMC's theory of joint infringement was correct, no one would ever need to sue for inducement or contributory infringement, thereby alleviating themselves of the burden on proving

[11] *Cf. Co-Steel Ruritan, Inc. v. ITC*, 357 F.3d 1294, 1307 (Fed. Cir. 2004) ("Dictum includes a remark made or opinion expressed by the judge…that is incidentally or collaterally, and not directly upon the question before the court.")

[12] 35 U.S.C. § 271(a).

[13] 35 U.S.C. §§ 271(b)-(c).

intent to infringe. A patentee could just allege that each entity performed a step in the process and, under BMC's argument; they would each be directly liable. This result is contrary to Congress' intent in enacting these sections and conflates direct and indirect infringement.[14]

2. <u>The District Court Cases relied on by the Appellant do not Support its Joint Infringement Doctrine, nor its Participation and Combined Action Test.</u>

The district court cases cited by the Appellant are not, of course, binding authority on this Court, nor do they support the imposition of joint liability on the basis of the "participation and combined action" test proposed by the Appellant. The cases support the proposition that a person cannot avoid liability for infringement of a method claim by having someone perform one or more steps for him. This is clearly correct[15].

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[14] SEN. REP. NO. 1979 (1952), *reprinted in* 1952 U.S.C.C.A.N. 2394, 2402; A3141-53; *see also* Mark A. Lemley et. al., *Divided Infringement Claims*, at 1-8, presented at the 9th Annual Advanced Patent Law Institute in Austin, Texas (Oct. 28-29, 2004). A3156-93. (?)

[15] Every corporate defendant acts through its employees and is nevertheless responsible for their actions taken on its behalf. It would make no sense to have liability for patent infringement turn on whether a corporate entity acts through employees or independent contractors.

- "That defendant chose to have the vacuum metalizing, which was a conventional step … done by outside suppliers does not mitigate their infringement of the overall process."[16]
- "[D]efendant, in effect, made each of its customers its agent in completing the infringement step."[17]
- "Infringement of a patented method cannot be avoided by having another perform one step of the method."[18]
- "One may infringe a patent if he employ an agent for that purpose or have the offending article manufactured for him by an independent contractor."[19]

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[16] *Metal Film Co. v. Metlon Corp.*, 316 F. Supp. 96, 110 n. 12 (S.D.N.Y. 1973).

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

[18] *Idacon, Inc. v. Central Forest Products, Inc.*,1986 WL 15837 *19 (E.D. Okla.).

[19] *E.I. DuPont de Nemours v. Monsanto Corp.*, 903 F. Supp. 680, 734, 35 (D. Del. 1995).

- "CaMac cannot avoid liability for infringement by paying Monsanto to practice step (a) of the patent for it."[20]

Further, as an additional matter of policy, this is not a case where conduct of different parties should be aggregated to create a direct infringer. BMC cites only one case, a 25 year old district court opinion, in which the court held multiple parties liable as direct infringers. In that case, the court found both defendant companies, Halliburton and Brown & Root, jointly liable as direct infringers.[21] Quite apart from whether *Shields* is good law, its facts are quite different. In *Shields*, the court found that employees of two defendants, Haliburton and Brown & Root, physically assisted each other in grouting the supporting legs of an off-shore oil platform using the patented method. The court did not find that Halliburton performed some steps of the method and Brown & Root the remainder. Instead, it found that both jointly performed the entire process.[22] *Shields* is clearly inapplicable here because there is no evidence to suggest that employees of Paymentech acted with any one else in performing any of the steps of a PDBP transaction. To the contrary, the evidence establishes that each entity acts totally

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[20] *E.I. DuPont*, 903 F. Supp. at 735. (CaMac, which purchased an intermediate from Monsanto produced according to step (a) of the claim and then performed steps (b) and (c) to complete the claimed method, held to be a direct infringer.)

[21] *Shields v. Halliburton Co.*, 493 F. Supp. 1376, 1389 (W.D. La. 1980).

[22] *Id.*

alone in carrying out the steps that that entity performs. First, it is not Paymentech's business to operate the ATM/debit networks that connect to a financial institution and determine whether a customer has sufficient funds to pay a bill. Nor is it Paymentech's business to be a financial institution where a customer can keep a deposit account or line of credit that is charged against or debited. Further, it is not Paymentech's business to offer or operate the IVR necessary to perform the prompting steps of any of the Asserted Claims.

Moreover, it is beyond dispute that Paymentech has not chosen to have other entities perform steps it would otherwise be performing in order to avoid any of BMC's Asserted Claims. Moreover, unlike *Shields*, the claim language in the BMC patents specifically states that different entities are required for various steps, so the "avoidance of the patent" reasoning supporting the *Shields* decision is wholly inapposite.

This Court has interpreted *Shields* as based on a finding that one defendant controlled the other. In *Cross Medical Products*, this Court rejected an argument that Medtronic directly infringed a product claim because its representatives were present in operating theaters in which doctors performing surgery allegedly transformed a non-infringing product sold by Medtronic into an infringing product by joining the anchor seat of the product to the patient's bone. The Court observed that the finding of infringement in, for example, *Shields*, was that a step of the claimed method is performed "at the direction of, but not by, [the] party". The Court refused to find Medtronics liable for direct infringement because the doctors were not its agents.[23]

In contrast to *Shields*, the Northern District of California refused to find direct infringement where no single entity performed each step of the claim even though the holding resulted in the plaintiff having no remedy.[24] *Avery Denison* involved the denial of a summary judgment of non-infringement on the basis that a fact issue existed as to whether "converters," who arguably performed the final steps of the claimed method could be held direct infringers. According to the summary judgment record, the defendant UCB Films purchased film products and sold them to laminators who sold them to "converters," who "may have performed the final steps of the claimed method."[25] The court held, denying summary judgment of non-infringement, that following the rule in *E.I. DuPont*, the "convertors" might be held to be direct infringers because a person completing the

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[23] *Cross Medical Products, Inc. v. Medtronics Sotmor Denek, Inc.*, 423 F.3d 1293, 1311 (Fed. Cir. 2005).

[24] *Faroudja Labs, Inc. v. Dwin Electronics, Inc.*, No. 97-20010 SW, 1999 U.S. Dist. LEXIS 22987, at *13-22 (N.D. Cal. Feb. 24, 1999) (refusing to find direct infringement because the connection between the entities who perform the various steps is too remote).

[25] *Avery Denison Corp. v. UCB Films PLC*, 1997 WL 567799, * 2 (N.D. Ill.).

patented method is deemed to have paid the people who carried out the earlier claimed steps to have done so on its behalf.[26]

Pay Child Support Online held that the defendant performed all the steps of the claimed method. The accused infringer PCSO contended it was not a direct infringer because it did not "initiate payments", rather its customers did.[27] The court held that "PCSO initiated the transfer of payments and payment information." *Id*. Accordingly, the court did not need to deem PCSO to have performed a step actually performed by another in order to find infringement.

Hill v. Amazon.com also involved the denial of a defendant's motion for summary judgment of non-infringement, and held that in the absence of an agency or contractual relationship, the law requires a showing that the defendant and the third-party are connected at least to the extent that the defendant must "actually direct the third-party to perform the remaining steps of the method."[28] The court based this understanding on *Shields* and disapproved *Cordis* to the extent the latter suggested that all that is required is "some connection." "Not just any connection,

[26] *Id*. at *3.

[27] *Pay Child Support Online*, *Inc*. *v*. *ACS State & Local Solutions*, *Inc*., 2004 WL 741465, *9 (D. Minn.).

[28] *Charles E. Hill & Assoc*., *Inc*. *v*. *Amazon.com*, *Inc*., 2006 WL 151911, *2 (E.D. Tex.).

however, is sufficient."[29] Although Appellant relies on *Hill*, it neglects to mention its disapproval of *Cordis*.

In *Cordis* the asserted claim was to a "Method for implanting a balloon expandable stent prosthesis within a passageway of a coronary artery…."[30] The jury held BSC, which distributed the stents but did not implant them, liable for contributory infringement. BSC moved for judgment as a matter of law, arguing there was no predicate act of direct infringement. The non-party physicians performed all but one step of the claimed method. The missing step involved "disposing the stent prosthesis upon a catheter having an inflatable balloon portion." The physicians purchased the stents already on the catheters. Because of the evidence of extensive interactions between BSC and the physicians, the court denied the motion. *Cordis* cited only *Faroudja* as authority for holding that some one who performed less than all the steps of a patented method can be a direct infringer. *Faroudja* is not authority for that proposition. As discussed above, it merely denied defendant's summary judgment motion on non-infringement because of the presence of material fact issues as to "control." Significantly, BMC incorrectly states the holding in *Cordis* because the court did not find Boston Scientific, who performed only one step of the claim, liable as a direct infringer.

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[29] *Id*.

[30] *Cordis Corp*. *v*. *Medtronic AVE, Inc*., 194 F. Supp. 2d 323 (D. Del. 2002).

The jury was not even asked whether Boston Scientific directly infringed a method claim.[31]

3. *On Demand* Did Not Change The Law.

The district court considered *On Demand* and correctly decided that it did not change the law. As Judge Lynn noted, this court's approval of the jury instruction was clearly dictum. Moreover, the correctness of an instruction depends on the meaning of the instruction as a whole.[32] The Appellant focuses on only one part of the instruction, its reference to "participation and combined actions."[33] The instruction, however, also includes the familiar statement that "infringement cannot be avoided by having another perform one step of the process or method."[34] To the extent the Court approved that statement, it is unexceptional.

As recently as December 2005, this Court granted a stay of an injunction entered after a final judgment of "joint infringement" in a case involving the *amicus curiae*. The Court wrote:

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[31] *Cordis*, 194 F. Supp. 2d at 338, 349-50.

[32] *Brooktree Corp. v. Advanced Micro Devices, Inc.*, 977 F.2d 1555, 1570 (Fed. Cir. 1992).

[33] *On Demand Machine Corp. v. Ingram Industries, Inc.*, 442 F.3d 1331, 1334 (Fed. Cir. 2006).

[34] *Id*.

> [W]e conclude that BCGI has demonstrated the existence of a substantial question whether the theory of liability applied by the district court departs from this court's precedents regarding vicarious liability for infringement in such a manner as to bring the verdict into question. This court has not addressed the theory of joint infringement and there is relatively little precedent on that issue.[35]

It is unlikely the Court intended to make a major change in its jurisprudence in the *On Demand* footnote that was not even directly necessary to its decision in the case.

BMC contends there are facts in the record satisfying the *On Demand* standard. BMC's understanding of the *On Demand* standard is wrong because it omits the "having another perform one step for you" part of the jury instruction.

BMC argues the *On Demand* test is satisfied because Paymentech knew of the BMC patents. This is irrelevant. BMC also contends that Paymentech "coordinated" the system because there is evidence in the record that it worked with (a) the merchants, for example with Verizon Wireless, and (b) the remote payment networks. "Coordination" is not the standard under any test and certainly not under the *On Demand* test. There is, moreover, no evidence that Paymentech co-coordinated the financial institutions, which are separate entities from the remote payment networks and so even a "coordination" standard fails.

[35] *Freedom Wireless, Inc. v. Boston Communications Group, Inc.*, 06-1020, -1078, -1079, -1098, -1099 (Fed. Cir. Dec. 15, 2005).

Paymentech did not direct the networks to drop the requirement for a PIN. The networks did that themselves and chose the restrictions on what transactions, from what merchants, under what conditions they would accept as PINless. Paymentech cannot vary those restrictions; it is controlled and directed by the networks. Paymentech has to satisfy the networks, and not vice versa. As BMC admits at page 48 of its Brief the networks have rules and regulations governing processing of any ATM transaction including PINless debit. Although it is true that Paymentech obtains approval of the merchant by the networks and delivers the BIN files to the merchant, this does not show that Paymentech is directing or controlling either the networks or the merchants.

Appellant argues that the necessary connection between the defendant and an independent entity which performs one or more of the steps of the claim need not be a direct one. On this basis, Appellant contends Paymentech is connected to the ATM networks which in turn are connected to the financial institutions. While in some context an indirect connection may satisfy a requirement that two things are “connected”, it does not satisfy what is required by “connection” in the context of whether Paymentech should be liable for the acts of an independent entity. In this case, it is not so much that the contact is indirect that prevents a finding of infringement, it is that neither the networks nor the institutions are performing a step on behalf of Paymentech. They are acting strictly on their own account. The record contains no evidence that creates a fact issue on BMC's contention that the ATM networks and the banks are not separate entities.

4. The Statutory Scheme Does Not Allow for Joint Infringement.

Adopting a doctrine of joint direct infringement would render both contributory and inducement of infringement[36] superfluous in the context of multiple infringers. It is beyond dispute that to prove either contributory, or inducement of, infringement, BMC must show Paymentech had some higher level of scienter than required to prove direct infringement. Direct infringement is a strict liability tort, which by the plain language of section 271(a) does not require any kind of knowledge. In contrast, to prove contributory infringement BMC has to show that Paymentech is providing a service knowing that it has no use other than to aid in infringement.[37] Further, to prove Paymentech induced an entity to infringe, BMC must prove that Paymentech had a specific intent and took steps to encourage others to perform infringing acts.[38] However, under its theory of joint direct infringement, BMC relieves itself of the burden of proving any level of knowledge.

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[36] 35 U.S.C. §§ 271(b)-(c).

[37] 35 U.S.C. § 271(c).

[38] 35 U.S.C. § 271(b); *Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 553 (Fed. Cir. 1990).

According to BMC, every entity that performs any step of any Asserted Claim would be liable for direct infringement as long as some other, related or unrelated, entities performed the remaining steps. There is a reason why Congress established a knowledge requirement for contributory and inducement of infringement—it was Congress' decision that companies should not be held liable for others' acts if they did not know of and encourage those acts. Moreover, here BMC asks the Court to combine the acts of no less than four entities (merchant, Paymentech, debit network, and financial institution) and hold each liable for direct infringement based on the others' acts, even though none of the entities alone practices the claimed invention. BMC refuses to acknowledge this necessary consequence of its position, insisting that sections 271(b) and (c) would not be rendered superfluous because they also apply in situations where section 271(a) does not. BMC misses the point—of course contributory and inducement of infringement normally apply where direct infringement does not, particularly in the product claim context. However, it is BMC's theory of joint infringement that would render those sections superfluous with respect to multiple entities in a method claim context. BMC cannot, and does not dispute that. An interpretation of a statute that renders parts of it superfluous is rarely the proper reading.[39]

Section 271 of the statute addresses in considerable detail direct infringement, contributory infringement and infringement by inducement. The level of detail in the section indicates that Congress has struck a balance as to the circumstances in which a person who does not take the entire claimed invention should face liability for infringement based on the acts of others. The Court should respect the legislative judgment contained in that section.

The rule that only performance of every step of a claimed method by a single defendant can constitute an infringement is well established. Yet when Congress amended section 271 in 1988, it did not change the rule. It did, however, enact subsection (g), the product by process infringement section, 1988 Process Patent Amendment Act, 35 U.S.C. § 271(g). This new subsection addressed the situation involved in many of the cases relied on by the Appellant, for example, *Metal Film, E.I. DuPont de Nemors*, and *Avery Dennison*. Had subsection (g) been in force when these cases were decided, the sale and use of the finished product

[39] *Regions Hosp*. *v*. *Shalala*, 522 U.S. 448, 466-67 (1998) ("It is a cardinal rule of statutory construction that significance and effect shall, if possible, be accorded to every word ... 'a statute ought, upon the whole, to be so construed that, if it can be prevented, no clause, sentence, or word shall be superfluous, void, or insignificant.' This rule has been repeated innumerable times.") (citations omitted).

would have been a direct infringement under that subsection. The entity that performs the final step of a method and uses or sells the product is a direct infringer and, under proper circumstances, entities that perform earlier steps of the method can be liable under subsections (b) and (c).

The problem Appellant sees arises, if at all, in connection with business method patents where no final product is used or distributed and so no infringement under subsection (g). The argument that the "whoever" language of section 271(a) supports a theory that multiple parties may be liable for direct infringement is unconvincing. Notably, no court discussing this theory has ever pointed to the statutory language as support. This is because the argument made by BMC and the *amicus curiae* is circular, assuming what it is trying to prove. "Whoever" may de defined in a dictionary as a person or persons, but that is not helpful. The statute requires "whoever" to use "the patented invention." The patented invention for a process is every step of the process, not just certain steps. BMC's reading assumes that the law allows multiple parties to combine to use the patented invention—exactly what it is supposedly proving with its definition. The more logical reading is that the statute's statement that "whoever" practices each step of the process will be a direct infringer implies that more than one entity will be held directly liable if more than one practices every step.

The a*micus curiae* contends that the words “whoever infringes” in section 271(a) must encompass more than one person performing the steps necessary to constitute infringement because the statute also uses the words, “whoever invents...” and it is settled law that several persons can jointly make an invention. In the case of “joint invention,” however, the statute expressly provides that an invention can be made by more than one person: “when an invention is made by more than one person jointly, they shall apply for a patent jointly.”[40] While this indicates that “whoever” may cover more than one actor, it does not require that it must do so. Indeed, tellingly, as to invention, the statute includes the specific reference to joint inventors cited above and Section 262 which provides for the respective rights of joint owners of a patent. There is no provision in the statute expressly stating that direct infringement may result from the acts of more than one person, nor defining the respective liabilities of “joint infringers.” Thus the statue suggests the opposite of the *amicus*’ contention: if “joint infringement” were intended, there would be express provisions for it.

The historical analysis of the language of the patent statute offered by the *amicus curiae* similarly fails to convince. The different language used in the statute over time does not indicate an intention to legislate for joint infringement, merely to recognize that a patent may be infringed by several different infringers.

[40] 35 U.S.C. § 116.

At all times, the statute has required that in order to infringe, a person must practice the entire intervention, not just one or more, but less than all, of the claimed elements that together constitute the patented invention.

5. <u>The Useful Arts can be Promoted Without a Doctrine of Joint Infringement.</u>

Appellant contends that a doctrine of "joint infringement" is necessary to protect method inventions and further the constitutional goal of Promoting Progress in the Useful arts.

Joint infringement is not the law at the present time, yet there is no evidence that industry has ceased innovation in any area because of that, or that without this extension of protection, certain inventions will not be made. Nor does the record show that any group has been lobbying for the law on infringement be expanded in this way.

The statutory scheme and the decisions of this Court that give effect to it are not based on simply protecting every idea that is the subject of a patent application. In particular, the statutory scheme recognizes that a patent monopoly could have an anti-competitive effect if granted indiscriminately. This is clearly seen, for example, in the bar to the grant of a patent on an invention that is obvious.

It is very far from clear that expanding the definition of infringement to allow patentees to sue people who practice less than the entire invention will promote the Progress of Science and the Useful arts. Certainly, BMC offers no support for this other than its statement that this is the case. While the change it requests could benefit BMC, the patent system exists to benefit society as a whole. Some studies suggest that increased availability of patent protection, while leading to increased innovation in some commercial fields, does not do so universally. Indeed, in some areas, it would hinder competition that would otherwise spur innovation. In testimony to the FTC, critics of business method patents urged the view that "business method patents do not foster incentives to innovate, because business methods habitually evolve in response to competition and internal business needs, without regard to legal rights to exclusivity.[41]

Similarly, a report of the Nation Research Council of the National Academies stated:

> In the non-manufacturing part of the economy, it is less clear that patents induce additional investment, for example, in software advances and business method improvements. Possibly as a result, in part, of trade secrecy and copyright protection, invention flourished in both fields well before the advent of patent protection, …. The fact is that the roll and impact of patents in the service industries and service functions of the manufacturing economy have not been studied systematically.[42]

[41] Federal Trade Commission Report, To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy, October 2003 at Ch. 4 II E 3 n.278 (available at http://ftc.gov/opa/2003/cpreport.htm).

[42] *A Patent System for the 21st Century*, Stephen A. Merritt, Richard C. Levin, and Mark B. Myers, The National Academies Press, p.36 (2004)

Professor Bronwyn Hall of the University of California at Berkley in a paper prepared in 2003 wrote:

> What does the body of literature just surveyed have to say about the implications of allowing business method patents on innovation in business methods? The only conclusion that is certain is that allowing business method patents will cause an increase in the patenting of business methods, one we have already experienced. …
>
> Unfortunately, it is much more difficult to make predictions about the effects of this subject matter expansion on innovation that are not pure speculation. We know that patents are not considered essential for capturing the returns to innovation in most industries, and there seems no reason to think that this one is different. Casual observation suggests that business method patents are not being used to provide innovation incentives as much as they are being used to extract rents ex post, but this evidence could be misleading.[43]

BMC's unsupported assertion that extending the scope of infringement to cover partial performance of a claimed method will Promote the Progress of Science and the Useful arts is entitled to little or no weight. If the protection given to business methods is to be extended, it should be by legislative action based on testimony directed to the benefits of the expansion to society as a whole, not just to benefit a handful of patent holders.

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[43] Hall, Bronwyn H., "Business Method Patents, Innovation, and Policy" (May 4, 2003). UC Berkeley Competition Policy Center Working Paper No. CPC03-39. Available at SSRN: http://ssrn.com/abstract=463160

6. <u>BMC's "invention" is not a basis for instituting Joint Infringement liability - Just Better Claim Drafting.</u>

Appellant contends that its "invention" could not be protected unless it is permitted to write method claims that require several parties for their performance. It has not, however, demonstrated that this is the case. Appellant and the *amicus curiae* argue that without "joint infringement," people, such as themselves, who have drafted claims that require multiple entities to perform the different steps will not be adequately protected. There is no evidence that this is a real problem. Many patents contain product or apparatus claims in addition to method claims. In any event, it is putting the cart before the horse. When these claims were drafted, there was no law of joint infringement. It is disingenuous to argue after the event that there is a need to expand coverage to claims that were written at the time when there was known to be no protection for them.

The patent system is always a compromise and cannot guarantee protection for every case. It must always balance between benefits and problems. There is no evidence that because of the absence of a doctrine of joint infringement, progress in any field of the useful acts has been hindered. Appellant's new doctrine would be applied in the area of business method patents. Are people clamoring for increased protection for this type of invention? The reverse is the case. The objective of Promoting the Progress of Science and the Useful arts does not require the patent system to protect every applicant who has chosen to include claims probably not easily infringed under the law.

BMC's argument is a boot strap one. It has included claims requiring multiple parties for infringement; therefore the law of infringement must be changed so as to give effect to those claims. Clever claim drafting is the answer. Appellant's straw man argument of dividing tasks to avoid a single entity practicing all the steps is not a practical solution and would be caught as infringement under the current rule of "having a step performed for you." In the present case, how would the network or merchant avoid a properly drafted claim? The court should not create a problem for many in order to solve a problem for one particular patentee. Appellant chose to write the claims it did. There is no evidence in the prosecution history of the separate applications resulting in the three BMC patents that it tried and failed to write claims focused on the action of one of the many entities involved, for example, the merchant or the remote payment network.

7. Appellant's Joint Infringement Doctrine Would Have Many Adverse Consequences.

Appellant gives no consideration to the adverse consequences of its proposed rule in terms of: (1) the proliferation of litigation that would result; (2) the potential for abuse by patents drafted to cover acts of deep pocket entities; (3) the difficulty a defendant would have in demonstrating whether or not a third-party performed a step as claimed; and (4) the inequity of making a party that performed less than all of the claimed invention liable in damages for the entire infringement.

As to (1), Appellant claims Appellee is jointly liable for infringement based on its actions combined with those of the merchant, the remote payment network and the financial institution. In order to obtain contribution towards any damage award, Appellee must file third-party actions against those entities, which the record shows consists of five merchants, three ATM networks and no one knows how many thousands of financial institutions, which issued the cards and whose identity is not known to Appellee.

As to (2), the present rule deters patentees from including needless steps performed by separate parties, just to increase the number of deep pocket defendants. Appellant's new rule will find its greatest application in the area of business method patents. Many of these involve the transfer of data between different entities, typically over a telephone, cable, wireless or fiber-optic network. In the present case, without sacrificing any protection, BMC could have added a claim which included the steps of "providing a telephone network", "receiving data from the merchant and transmitting it over the network to the remote payment network". The telephone company would now be liable as a "joint infringer" under Appellant's theory.

As to (3), because infringement requires performance of every step recited in the claim, in the exact manner specified in the claim, a defendant faces a major problem if, as is the case here, some of the claimed steps are performed by an entity it does not control and to which it has not given directions as to how the steps are to be performed. How does the defendant know whether the step is performed as specified in the claim? While this may ultimately be the burden of the patentee, the defendant needs this information to prepare its defense. In the present case, for example, a merchant may not prompt the customer to enter her "account number" as required by the claims. Verizon Wireless, instead automatically reads the telephone number of the caller and does not prompt for an account number. Because these are decisions made by the merchant, Paymentech does not have first-hand knowledge of them. Similarly, the merchant may not prompt the customer to enter an amount for payment. Instead, it may tell the customer the balance and give her option of paying it.

As to (4), a defendant makes a profit only on the step(s) of the claimed method that it performs. However, under BMC's theory it is liable for damages as to the entire infringement. Not only is this clearly inequitable, in defending against such a damage claim, the defendant may not have information about the profits earned by steps performed by other entities. Although Appellant claims that if joint infringement is not recognized, entire new industries could arise devoted to practicing less than all the steps of a patented method, the law does not currently recognize joint infringement, but Appellant points to no evidence that these new industries are arising. What has arisen, however, is the industry of patent trolls, suing to enforce business method patents against scores of defendants. Appellant's doctrine of joint infringement would give a tremendous boost to that industry.

8. It is Not Appropriate to Hold Paymentech Liable for Infringement.

The "invention" is a "method of paying bills." Paymentech does not provide this service. In the context of the case, the merchant could be considered to be providing a method for its customers to pay its bills. The financial institutions, by supplying payment cards and the card networks, could be considered to provide a method for their customers to pay bills. Paymentech does not. It is doing what it had done long prior to the patents in suit, namely, provide a connection between the merchants and the networks to obtain authorizations for credit and debit card transactions.

Paymentech has no reason to want merchants to use PINless debit, as opposed to credit card, or PIN or signature debit, forms of payment. It is format agnostic. Similarly, Paymentech did not care whether or not the networks required a PIN *vel non* for security. It was not involved in any way in that debate or the eventual decision made by three of the ATM networks. In the circumstances, it requires a special plaintiff's-perspective to see Paymentech as central to the bill paying process and therefore most aptly liable for infringement.

If the District Court correctly required a showing of direction or control, Paymentech cannot be liable. It does not direct or control either the ATM networks or the banks. BMC argues, however, that the data or message "controls" and "directs" the networks and financial institutions because they take action in response to the message. First, the data and message is collected not by Paymentech, but by the merchant. Second, although the data is the stimulus on which the ATM networks and banks act, it does not constitute "control or direction" of those parties sufficient to provide a basis for imposing liability on Paymentech. Paymentech transmits data collected by the merchants as specified by the networks in their rules.

In *Free Standing Stuffer*, the district court imposed liability on the defendant for the acts of other entities on the basis that the entities were *alter egos* of each other. There is no evidence that Paymentech and the other entities are *alter egos*. In *Marley Molding*, the court denied the defendant's motion for summary judgment finding there was a fact issue as to whether the defendant controlled the activities of the third party that performed two steps of the claimed method. *Vermont Teddy Bear* again denied a defendant's motion for summary judgment, but without a clear ruling on the circumstances necessary to make the defendant liable for the acts of its customers. The court noted the "some connection" standard in *Cordis* and held that the record was sufficient for the plaintiff to survive summary judgment on the basis that the defendant itself performed all the acts necessary for infringement, or that it was proper to attribute its customers' acts to the defendant because of the "connection" between them. The court did not find that the message "controlled" the customers, because it did not adopt a standard that required a showing of control for vicarious liability.[44]

B. PAYMENTECH DOES NOT INDUCE DIRECT INFRINGEMENT BY VERIZON WIRELESS.

Having argued that Paymentech is the direct infringer because it directs and controls Verizon Wireless, Appellant abandons that position to argue that it is Verizon Wireless that directs and controls Paymentech and is thus a direct infringer, which Paymentech induced to infringe.

The fundamental problem with the contention of induced infringement is that there is no direct infringer. "[A]bsent direct infringement of the patent, there can be…[no] inducement of infringement."[45] As a matter of law, there is no direct infringer and therefore Paymentech has not induced infringement. Moreover, there

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[44] *Applied Interact, LLC*, 2005 WL 2133416 at *6.

[45] *Met-Coil Sys. Corp. v. Korners Unlimited, Inc.*, 803 F.2d 684, 687 (Fed. Cir. 1986).

is no record evidence that Verizon Wireless controls or directs the networks or the financial institutions.

Further, BMC cannot prove that Paymentech "actively induce[d] infringement of a patent" as required under 35 U.S.C. § 271(b). Proof of active inducement requires not only a showing that the defendant has "knowledge of the acts alleged to constitute infringement," but something more.[46] "Proof of actual intent to cause the acts which constitute infringement is a necessary prerequisite to finding active inducement."[47] "It must be established that the defendant possessed specific intent to encourage another's infringement and not merely knowledge of the acts alleged to constitute infringement."[48]

BMC alleges that Paymentech induces its merchants to infringe. First, as discussed below, none of the merchants processing PINless debit transactions practice every step of any of the Asserted Claims. Thus, there is no direct infringement that Paymentech could have induced. Further, even as to the steps of the Asserted Claims that the merchants do perform under certain circumstances, there is no evidence that Paymentech has done anything with the specific intent to

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[46] *Warner-Lambert Co. v. Apotex Corp.*, 316 F.3d 1348, 1363 (Fed. Cir. 2003) (citations omitted).

[47] *Id.*

[48] *Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 553 (Fed. Cir. 1990).

encourage the merchants to perform those steps. The evidence shows that Paymentech requires information to be sent to it according to its Technical Specification. A2823. Paymentech does not care how the merchant gathers its information or even what particular numbers are put into each field in the message sent, as long as the required fields in the message are properly filled. A2824.

As such, there is no evidence that Paymentech intended to cause any merchant to prompt for any particular information such as the claimed "account number," "payment number," or "payment amount." BMC clearly failed to show Paymentech had the actual intent to cause the acts by the merchants that it claims are infringing. The facts that Paymentech explains PINless debit bill payment to its merchants, provides guidance as to the ATM-network regulations and asks the merchants to provide certain information required by the ATM-networks to process each transaction are entirely irrelevant and have nothing to do with the real issue which is whether Paymentech intended to cause any merchant to prompt its customers for the claimed information or to inform the caller of the success or failure of the transaction during the call. BMC has provided no evidence of any such intent.[49]

[49] *See, e.g.*, *Hewlett-Packard Co. v. Bausch & Lomb, Inc.*, 909 F.2d 1464, 1469-70 (Fed. Cir. 1990) (finding no inducement based on no proof of intent to infringe).

In *Hewlett-Packard*, the Federal Circuit noted that the defendant had no intent to induce, as it had no interest in or control over the entity to which it sold the rights to its business which included information that could be used to make and sell potentially infringing goods.[50] Similarly, as proved above, Paymentech has no interest in, or control over what any merchant does to gather the information required by the ATM-networks for processing. Further, it certainly has no control over or interest in whether any merchant informs any customer of anything regarding the transaction.

While the evidence shows that Paymentech reviewed the IVR scripts for each of its merchants, it is undisputed that the review was only to ensure compliance with the ATM-network regulations and card association rules. A2732, 2723, 2725. For instance, Visa has a rule requiring that when a card is used that carries both the Visa brand and an ATM-network logo, the consumer be given a clear choice between processing through the ATM-network or through Visa. Thus, IVR scripts were reviewed to ensure that it was made clear to a consumer that their card authorization was being processed through Pulse, Star, or NYCE, as opposed to Visa or MasterCard. A2822. Further, the ATM-networks have requirements that the consumer hear the brands of “Pulse,” “Star,” and “NYCE,” so scripts were

[50] *Id*. at *1470*.

reviewed to address that issue as well. A2822. None of these considerations are part of the patented invention.

The undisputed evidence shows that Paymentech did not comment, control, or otherwise have anything to do with any merchant's decision to prompt, or not prompt the consumer for the particular information required by the Accused Claims, or with the merchant's decision to inform the customers whether their transaction was authorized or declined. A2822.

In fact, each of the merchants already had existing IVRs that had been processing bill payments for customers using credit cards and were prompting customers to supply certain information and communicating other information back to the customers well before the merchants began processing PINless debit transactions using Paymentech. A2732, 2724, 2726.

Further, BMC has offered no proof to refute the general rule that the existence of an indemnification agreement typically does not establish intent to induce infringement.[51] That Paymentech indemnified Verizon against potential patent infringement claims does not establish that Paymentech induced infringement. Moreover, even if an indemnification agreement had the effect of

[51] *Hewlett-Packard Co.*, 909 F.2d at 1470; *Tec Air, Inc. v. Nippondenso Mfg. U.S., Inc.*, No. 91-C-4488, 1997 WL 49300, at *5 (N.D. Ill. Jan. 30, 1997); *L.A. Gear, Inc. v. E.S. Originals, Inc.*, 859 F. Supp. 1294, 1302 n.8 (C.D. Cal. 1994) (noting that the plaintiff "must do more than just point to the existence of an indemnification clause in order to survive summary judgment.").

causing a party to infringe (which it still does not in this case), the party offering the indemnification agreement did not induce infringement so long as it offered the indemnification agreement for a purpose other than to induce infringement.[52]

Paymentech offered the indemnification provision to finalize the sale of its product, and not to promote infringement by Verizon Wireless, Allstate or Alltel. Notably, BMC fails to explain that the Verizon Wireless indemnification by Paymentech was conditioned on Verizon Wireless obtaining an infringement opinion of its own:

> Further to the foregoing, Paymentech shall indemnify, defend and hold harmless Indemnified Parties from any IP claims arising from or relating to the Litigated [BMC] Patents provided that the non-infringement opinion prepared by Darby & Darby and dated as of February 27, 2004 (the "Verizon Wireless Opinion") covering all systems used by Verizon Wireless in conjunction with the [PINless debit] Services (the "Verizon Wireless System") addresses such infringement…

A2606.

It is difficult to see how a party could be induced to infringe when it was required to obtain and rely on its own infringement assessment in order to be

[52] *Hewlett-Packard Co.*, 909 F.2d at 1470 (finding that offering indemnification agreement to facilitate the highest possible price for a sale of a business did not show intent to induce infringement); *Tec Air*, 1997 WL 49300, at *5 (holding that a party did not induce infringement by providing an indemnification clause because the "primary purpose of the indemnification agreements was to secure the sale of [the company's] goods" and the effect of the agreements was simply to eliminate potential risk to the indemnified party).

indemnified. That Verizon requested and paid an additional amount for the presence of the indemnification provision suggests that the provision served as an agreement in advance to allocate risk of infringement between the parties and that Paymentech agreed to the clause to facilitate the sale of its services, which is permissible under *Hewlett-Packard* and *Tec Air*.[53] Further, the indemnifications for Allstate and Alltel do not indemnify those merchants for infringement caused by their own acts, which is precisely what BMC is alleging.

Without any evidence that Paymentech has or will promote or encourage its merchants to practice every step of each of the Asserted Claims, or even to practice those steps which they conceivably could, there is no genuine issue of material fact regarding Paymentech's lack of inducement.[54]

C. THE RECORD DOES NOT PERMIT SUMMARY JUDGMENT IN FAVOR OF APPELLANT.

There is no basis in the record for rendering judgment of infringement in favor of the appellant, whatever position the Court adopts on joint infringement. The summary judgment record does not demonstrate that even combining the acts of the merchant, Paymentech, the ATM network and the banks, all the steps are performed in accordance with the language of the claims.

[53] *See Hewlett-Packard Co*., 909 F.2d at 1470; *Tec Air*, *Inc*., 1997 WL 49300, at *5.

[54] *See Warner-Lambert*, 316 F.3d at 1364 (affirming grant of summary judgment of non-infringement under 35 U.S.C. § 271(b)).

For the Court’s convenience, the chart at A2517-20 sets out the asserted independent claims 1 of the ‘298 Patent and 6 of the “456 Patent, broken down with each step numbered for each claim. Because the independent claims asserted are so similar, the facts and arguments with respect to claim 1 of the ‘298 patent apply equally to common steps in claim 6 of the ‘456 patent. As the Court can tell, there are no steps of claim 6 of the ‘456 patent, that are not also found in claim 1 of the ‘298 patent.

Claim 1 of the ‘298 patent includes as step (1) “prompting the caller to enter an account number using the telephone, the account number identifying an account of a payor with the payee.” If Verizon Wireless prompts the customer for any information, it is the customer’s telephone number, which is a different number from his account number. If a customer calls Verizon Wireless using his cell phone, Verizon Wireless recognizes that number and looks up the customer’s information based on that number. The customer is not prompted to enter any numbers. A2590, 2594, 2597-604. If the customer calls from a different number, he must enter his cell phone number, which is different from his account number. A2596, 2731-32.

BMC cannot claim that the customer’s telephone number is “equivalent” to the account number and obtain a finding of infringement under the doctrine of equivalents. The claim element of “prompting the caller to enter an account number" was added by amendment during the prosecution in response to a rejection of the original claims. Any equivalents are therefore presumed to have been disclaimed.[55]

Even if the doctrine of equivalents were available, BMC offers no proof to carry its burden of proving that the telephone number of Verizon Wireless, Alltel and CenturyTel customers is equivalent to the claimed "account number." Notably, however, the specification distinguishes between a telephone number and an account number in discussing the payee's agent's record keeping. '298 Patent at Col. 11, ll. 16-20. A78. BMC offers no evidence that any Verizon Wireless, Allstate, Alltel, or CenturyTel customer is prompted for entry of an account number. In fact, the testimony of Verizon Wireless's representative explicitly demonstrates that Verizon Wireless either does not prompt for anything or prompts only for a telephone number. A2590. BMC has no evidence as to Allstate, Alltel, or CenturyTel and has not met its burden of proof to show infringement of the '298 Patent.

Although Claim 6 of the "456 Patent does not require the caller to be prompted to enter an account number, step (8) of that claim requires "adding the entered payment amount to an account associated with the <u>entered account number</u>" (emphasis added). Thus entry of the account number is required by

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[55] *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 739-40 (2002).

Claim 6 of the ‘456 Patent also. As shown above, there is no evidence that an account number is entered.

Additionally, as to claim 1 of the ‘298 patent, no one performs step (4) at the time required by the plain language of the claim. Neither Paymentech nor any merchant performs step (4), which requires a check of the validity of the payment (debit card) number, as they do not have that capability. A2824-25; A3047.

In fact, the debit card number is not checked for validity until the transaction message reaches the ATM-network or financial institution. A2825. The timing of this check, and the fact that Paymentech does not do it, is evidenced by the declines Paymentech receives from the ATM-networks of requested authorizations on the basis of invalid payment (debit card) number. A2852. If Paymentech or the merchant checked the validity of the card, or performed any function equivalent to such a check, declines on the basis of invalidity would not occur. While the merchant and Paymentech have access to BIN files, those files are not used to check the validity of the card number. The BIN file can only check a subset of the entire card number. A3047.

Step (6) requires that certain actions required by the claim occur in a particular sequence. Step (6) indicates that the next step (7) is going to happen only “responsive to,” that is to say, “after” a determination has been made that the payment amount has been entered and that the entered account number and payment number are valid. Grammatically, the language of step (6) therefore requires that step (7) occur only after completion of steps (1)-(5) as summarized in step (6).

It is well-settled that a method claim will be construed to require an order of steps when the plain meaning of the claim language implicitly requires one.[56] Thus, because the checks required by step (4) are not and cannot be performed prior to accessing the remote payment network in step (7), step (4) is effectively not performed. Because step (4) is not performed, no one performs step (6), a summary of steps (1)-(5), nor step (7), which requires the prior performance of step (6). While Paymentech performs the part of step (7) consisting of "accessing a remote payment network associated with the entered payment number," it does not do so after a determination has been made that the entered payment (debit card) number is valid, as required by the language used in step (6).

As explained above, neither Paymentech nor the merchant from which it receives the transaction message including the payment (debit card) number can check the validity of that number. A2825. The ATM-network and/or the financial

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[56] *Mantech Envtl. Corp. v. Hudson Envtl. Servs., Inc.*, 152 F.3d 1368, 1375-76 (Fed. Cir. 1998) (finding every step of the method claim to be necessarily sequential based on claim which stated formation of a well, injection of acid into the well, injection of a solution into "said acidified groundwater", and injection of another solution to form a reaction with the acidified water); *see also Combined Sys., Inc. v. Defense Tech. Corp. of Am.*, 350 F.3d 1207, 1211-12 (Fed. Cir. 2003) (finding that claim language of "inserting said formed folds" required the folds to have been formed before the steps of insertion).

institution are the only entities in the process flow that have access to that information. A3047; A2824. Thus, because step (7) recites, in sequence, the first connection to the remote payment network, it is impossible for the step of determining the validity of the entered payment number to have occurred before step (7) because there is no prior connection to the only entities that could make such a determination.

Finally, with respect to step (8), Paymentech does not “stor[e] the account number…in a transaction log file of the system.” Paymentech is the only entity that could be construed to be “the system” referenced in this step. Use of the definite article “the” preceding “account number” in this step denotes that this “account number” has already been claimed in a prior step of the claim.[57] The only step reciting an “account number” is step (1). Thus, “the account number” in step (8) must be the same account number the caller was prompted to enter in step (1). The only account number referenced in any Asserted Claim is one that has been “entered.” In every Asserted Claim the “account number” in the last step is preceded by the word “the”. “The” indicates that the account number has an

[57] Robert C. Faber, Landis on Mechanics of Claim Drafting § 3:11 (PLI) (5th ed. 2003); A3154-62; Manual of Patent Examining Procedure, § 2173.05(e) (8th ed. 2004). A3163-66.

earlier antecedent basis somewhere in the claim.[58] For claim 1 of the ‘298 patent, this basis is in step (1) where the caller is asked “to enter an account number.” For claim 6 of the ‘456 patent, the basis is earlier in step (3) which references “the entered account number.”

As noted above, none of the merchants asks the customer to enter an account number, thus there is no way that step (8) could be fulfilled. Paymentech could not store an account number that was never entered in accordance with the claim language. For these reasons, step (3) of claim 6 of the ‘456 patent is also not performed.

Further, with respect to Alltel, Alltel does not even pass on the telephone number entered by the customer to Paymentech in the message sent for processing. Alltel uses a separate randomly generated order number. A2723. This is the same for some of the transactions sent by Verizon Wireless as well. A2732. Thus, with respect to all Alltel messages and at least some Verizon Wireless messages, Paymentech never receives any type of number entered by the customer in any asserted claim and could not store it as required by step 8 of claim 1 of the ‘298 patent, or the last steps of the other asserted claims.

[58] *See, e.g.*, *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1338 (Fed. Cir. 2005) (noting that the “use of the definite article [the] indicates that the second use of the term…refers to the term [as used earlier in the claim].”)

Accordingly, even if Appellant's joint infringement doctrine is adopted, there is no basis in the record for finding that all the steps of the Asserted Claims have been performed.

VII. CONCLUSION

Appellant Paymentech requests that the Court affirm the district court's judgment and decline Appellant's invitation to expand the scope of business method patents by adopting a doctrine of joint infringement under which an entity which performs less than the entire invention can nevertheless be liable for direct infringement under a theory of strict liability which avoids the scienter requirements of Section 271(b) and (c) of the statute.

Respectfully submitted,

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CERTIFICATE OF FILING AND SERVICE

I hereby certify that on this 29th day of November 2006, two bound copies of the Brief of Defendant-Appellee Paymentech, L.P. were served, via UPS, to the following:

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I also certify that on this 29th day of November 2006, the original and eleven (11) bound copies of the Brief of Defendant-Appellee Paymentech, L.P. were hand filed at the Office of the Clerk, United States Court of Appeals for the Federal Circuit.

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CERTIFICATE OF COMPLIANCE

Pursuant to Federal Circuit Rule 28(a)(14) and Federal Rule of Appellate Procedure 32(a)(7)(C), counsel for Appellant hereby certifies that the foregoing Brief of Appellant complies with the type-volume limitation proscribed in Federal Rule of Appellate Procedure 28(a)(7)(B)(i) and was prepared using the following:

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Appellant's counsel has relied on the word count function of the word-processing program used to prepare Appellants' initial brief, which indicates that, exclusive of the Certificate of Interest; Table of Contents; Table of Authorities; Statement of Related Cases; and Certificate of Filing and Service, this brief contains 13,427 words.

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John M. Cone