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Intelligence

**TRENDING****Beware Divided Infringement Liability**

Patent infringement defendants have been enjoying a good ride for some time now. The Supreme Court, with decisions like *Alice Corp. v. CLS Bank International*, have for the most part raised the barriers for patentees and trolls. As a consequence, newly-filed cases fell in 2017 to 4,057, the lowest total since enactment of the America Invents Act in 2011. The number of new cases in 2017 stands in contrast to 2013, when 6,129 new cases were filed. Software cases, in particular, are on the decline, as evidenced, in part, by the drop in the number of covered business method filings to 34 in 2017, by far the lowest number in the past five years.

That said, the Federal Circuit gave an early Christmas present to patentees and trolls on December 19, 2017 with its reversal of a non-infringement decision in *Travel Sentry Inc. v. David Tropp*, 797 F.3d, Appeal No. 2016-2386. The Federal Circuit took a more nuanced or practical view of when a defendant can be held liable where someone else carries out one or more of the claimed steps of a patent. With the Federal Circuit's 2015 *en banc* decision in *Akamai Techs., Inc. vs. Limelight Networks, Inc.*, 797 F.3d 1020 — following the Supreme Court's urging that it revisit the divided infringement standard under 35 U.S.C. §271(a) — divided infringement liability turns on the "attribution" of the conduct of another (such as a customer or contracting party) to the accused infringer. Attribution is based on whether the accused infringer "directs or controls" the others' manner and timing of performance or whether the others' actions are part of a joint enterprise, based on an express or implied agreement, a common purpose, a community of pecuniary interests and an equal voice and control. 797 F.3d at 1022. While liability no longer is solely premised on agency relationships or contractual agreements, the Federal Circuit's 2015 *en banc* decision did not seem to open the door very wide.

Travel Sentry involved a patent claiming a method of screening luggage via a dual-access lock that allowed luggage to be accessed by TSA agents with a master key. The lower court found no infringement because TSA acted independently and was under no contractual obligation to perform the claimed steps. 192 F.Supp. 3d 522 (EDNY 2016). The Federal Circuit reversed, holding that the lower court had applied the two-prong test for divided infringement too narrowly. The two-prong Akamai test consists of assessing whether (1) the alleged infringer conditions participation in an activity or the receipt of a benefit upon the performance of a claimed step and (2) the alleged infringer establishes the manner or timing of that performance, 797 F.3d at 1022-23. As for the first prong, the Federal Circuit held that divided infringement does not require imposing a legal or technological obligation on the other party to perform. Slip. Op. at 17-18. In addition, the court found a sufficient benefit to TSA, as articulated in the parties' memorandum of understanding (MOU), which noted that the TSA could inspect baggage without damaging locks. As for the second prong, the Federal Circuit found there was a

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genuine issue of material fact as to whether Travel Sentry established the manner or timing of TSA's performance of the method's steps. Slip. Op at 25. The Federal Circuit rejected the older notion that the accused infringer must act as either the "mastermind" or "supervisor" of the other party's performance. Rather, it was deemed sufficient that Travel Sentry entered into a memorandum of understanding with TSA, provided TSA with passkeys, and instructed TSA on how to identify, unlock and relock the bags. *Id.* at 22. The Federal Circuit stressed the need to examine the specific context and facts of a given case. It was clearly influenced by the "partnership-like relationship" between Travel Sentry and the TSA as a practical matter.

The bottom line is that *Travel Sentry* suggests a further loosening of the standard for divided infringement in favor of patentees, thereby making it less likely for defendants to obtain summary judgment. So what can potential defendants do to possibly mitigate the risks of divided infringement? First, avoid the trappings of a joint enterprise. Second, be careful in drafting any communications, agreements and/or instructions to eliminate words of compulsion. Third, avoid language that might suggest an agency relationship. Fourth, avoid formal contractual obligations. Fifth, stress the non-obligatory nature of any steps and the absence of any mandated actions. That said, there is no surefire way to avoid potential liability in situations where actions on the part of your customers or contracting partners are necessary to perform steps claimed in a patent, apart from adopting a design around that eliminates one or more of the steps from your accused product or service offering.

U.S. Customs Adopts New Technology Donation Regulations

Effective January 15, 2018, U.S. Customs and Border Protection ("U.S. Customs") has a new process in place to support its efforts to prevent the trade of counterfeit and pirated goods. The new rules were implemented in furtherance of Section 308(d) of the Trade Facilitation and Trade Enforcement Act of 2015, which required creation of regulatory procedures for the donation of hardware, software, equipment, and similar technologies, along with related technical and support training from the private sector to U.S. Customs. The desired goal of this private-public donation concept is to increase the effectiveness of efforts to prevent infringing activities at the border.

The donation process involves submission of a donation offer via email or U.S. mail. The offer must (1) describe the donation in enough detail to enable U.S. Customs to determine compatibility with existing U.S. Customs technology, networks and facilities; and (2) include information regarding the donation's proposed scope, purpose, expected benefits, costs, intended use, and any attached conditions. These details are designed to enable U.S. Customs to evaluate the proposed donation and whether to accept it. If a donation is accepted, U.S. Customs will enter into a signed, written agreement with the donor. The agreement must identify the terms of the donation, state that the donation is offered without the expectation of any payment, and provide that the donor waives any claims against the government related to the donation except for those expressly reserved in the agreement.

U.S. Customs has indicated that it does not desire for this process to hamper the current dynamic relationships it has in place with various technology industries, and each donation agreement can cover either one item or a range of evolving products (e.g., those that might be associated with the video game industry). U.S. Customs has also

stated that this process will not impact the current practice of submission of samples of genuine and infringing products, and such samples may continue to be communicated and provided to U.S. Customs as deemed appropriate by rights holders to improve U.S. Customs' awareness of infringing activities related to such products. Similarly, requests for samples in connection with investigations of infringing activities will also not fall within the outlined donation process.

GC SURVIVOR KIT

A Checklist for Avoiding the Pitfalls of “Joint Technology.”

Every general counsel should take a very close look at any contract using the terms “joint technology” or “joint intellectual property.” These are common terms in many contracts – joint venture agreements, manufacturing agreements, joint development agreements, and more. While parties may start out believing that the idea of joint technology – namely that parties who work on a project together should jointly own the fruits of their labor – is equitable, the reality is that joint technology creates many areas for litigation to arise.

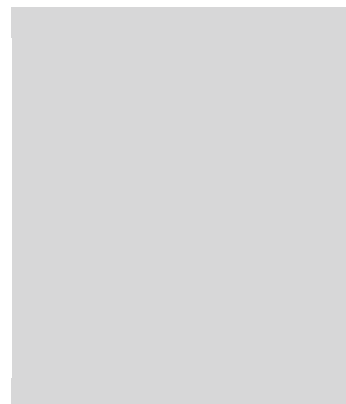
Hot areas of dispute include what is joint technology vs. what technology belongs to each party individually. Even when parties agree on the boundaries of joint technology, issues often arise concerning who has the right to use, license and enforce those joint technology rights.

To avoid litigation and minimize risk, consider the following issues up front when negotiating contracts and when a dispute seems likely to appear on the horizon:

- *Definitions* - Carefully define what is actually “joint” property. Remember that if a case goes to trial then people unfamiliar with the technology (juries, judges) may be responsible for interpreting the bounds of joint technology. The more common sense and detailed you can make the definition, the better;
- *Rights* - Carefully define who has the right to use, enforce and license “joint” property and under what terms. In general intellectual property joint ownership rights differ greatly by country and by type of intellectual property. Therefore it is important to carefully research the law of the countries in which the technology is to be developed to determine the default rights under such law. Additionally, it is often insufficient to simply state that intellectual property and/or technology will be jointly owned. Rather, the agreement of the parties ideally should specify what is intended by joint ownership. Such specification would include percentage ownership, and whether an accounting is required to the other owner for revenue or whether the other owner must consent to licensing;
- *Return and Destruction Provisions* - Carefully consider provisions concerning the agreed upon return and/or destruction of documentation and other materials related to “joint” property at the close of the relationship. Check with information technology and engineering professionals to make sure the provisions can be complied with in a proportional and cost effective manner. Institute periodic check-ins to audit compliance. Document compliance.
- *Segregation Provisions* - Carefully consider provisions concerning the segregation of documentation concerning background technology and newly developed

technology. Check with information technology and engineering professionals to make sure that the provisions can be complied with in a proportional and cost effective manner. Institute periodic check-ins to audit compliance, and document compliance.

Agreeing to joint ownership of intellectual property and technology can often be an expedient means of maintaining good will and a sense of parity among the parties. That said, the concept of joint ownership should be accompanied by thoughtful and detailed provisions and procedures capturing the parties' intended result when calling technology or intellectual property "joint."



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