The hard cell

Where the mobile banking industry thrives litigation follows, but decisions such as *Akamai* have hindered, not helped, says Manatt, Phelps & Phillips' **Robert D Becker** and **Neil Swartzberg**

The mobile banking and payment industry is booming. Growth is not limited to bank consumers using smart phones for paying bills or transferring funds. Retailers and e-tailers are cashing in too with their own applications ("apps") and services that offer on-line shopping, point-of-sale payments and everything in between.

Almost daily there are reports about rapid growth in this area, for reasons including the importance of mobile transactions as a revenue source and as a key component to customer satisfaction. For example, Gartner has estimated that the global market for mobile payments for last year (2012) would exceed $171bn, a 62% increase from the prior year (2011), and would reach $617bn by 2016.[1] Moreover, a recent American Bankers Association survey showed a sharp increase in the popularity of mobile banking in the US – driven mainly by young adults. Although regular internet access was the most popular banking method, mobile banking was preferred by 6% of all customers (a 100% increase from 2010), and by 15% of customers 18-34 year old.[2] One telling example of growth in this area is that by October 2012, just 10 months after its nationwide launch, the Starbucks Card Mobile app had in-store customers making 2m mobile payments every week.[3]

Mobile banking and mobile payments are not necessarily synonymous. A 2011-2012 survey by the Federal Reserve defined mobile banking as "using a mobile phone to access your bank account, credit card account, or other financial account.

"Mobile banking can be done either by accessing your bank's web page through the web browser on your mobile phone, via text messaging, or by using an application downloaded to your mobile phone".

The survey defined mobile payments as "purchases, bill payments, charitable donations, payments to another person, or any other payments made using a mobile phone. Mobile payments can be used by accessing a web page through the web browser on your mobile device, by sending a text message (SMS), or by using a downloadable application on your mobile device. The amount of the payment may be applied to your phone bill (for example, Red Cross text message donation), charged to your credit card, or withdrawn directly from your bank account".[4]

Mobile banking patent litigation

Not surprisingly, many of the technologies and innovations that make mobile banking and payments possible and secure are covered by patents, especially method patents – a prominent form of IP protection in this area. And because of the significant amount of money that is often at stake, as well as other important intangibles (eg, customer satisfaction), it is also not surprising that significant patent litigation is this area has ensued.

Patent litigation in the banking and payment arena is not new. For example, almost a decade ago, DataTreasury began a series of suits against major banks based on digital check-processing patents, netting at least hundreds of millions of dollars in settlements.[5] More recently, Fiserv sued Fidelity National Information Services alleging infringement of patents covering account transfers, process payment instructions and electronic biller notification processes.[6]

Also, even before technologies such as smart phone apps began to take substantial hold in the US, there were patent infringement cases that significantly implicated the "mobile" aspects of secure transactions provided by banks and other companies. For example, in 2009 Joao Bock Transaction Systems started filing suits against banks, credit card companies and even cell phone companies, alleging both direct infringement and induced infringement, including as a result of defendants' customers making secure credit card transactions using cell phones.[7]

The stakes appear to be growing, especially now that the mobile banking and payments arena is commanding the attention of not just banks and credit card companies, but increasingly telecoms and leading-edge technology companies (eg Google, Apple) and others. For example, much ink has already been spilled over Google and Apple pursuing another round of patent litigation, this time involving each company's planned "mobile wallet" products.[8] Already, at least one major front has opened in what appears to be the next generation of mobile banking and payments patent litigation. In early 2012, Maxim Integrated Products filed suits against a wide array of defendants, including Starbucks, Expedia, Capital One Financial and Bank of the West, based on a collection of four, relatively old patents, that are allegedly infringed, directly or by inducement, in connection with the defendants' respective customers using smart phones to conduct secure data transfers for payment processing.[9]

Just a few other recent patent disputes that are relevant include: On *Track Innovations, Ltd v T-Mobile USA, Inc*[10] (OTI sued T-Mobile regarding a patent that allegedly covers forms of Near Field Communication (NFC) technologies, including an NFC technology being promoted as a standard for wireless phones to complete point-of-sale mobile payments); *Stambler v Ameriprise Financial, Inc et al*[11] (alleging that banks and financial institutions, including Ameriprise, Barclays, Fifth Third, First Citizens, First National of Nebraska, and Northern Trust, infringe patents by offering secure online banking products through their interactive websites); *Pi-Net*

International, Inc v Presidio Bank[12] (alleging infringement by Presido Bank (and in similar complaints, by other banks) in connection with real-time, two-way, web-based banking transactions).

Critically, and perhaps even more so than in previous patent litigation involving banking and payment technologies, because of the multiple layers of technology and the multiple players involved in completing any given mobile transaction using devices such as smart phones, the much-debated issue of "divided infringement" is implicated in many cases in this next wave of patent litigation involving secure mobile transactions. As discussed more fully below, whereas direct patent infringement generally requires a single entity to perform every element covered by a patent holder's claim of patent infringement, when two or more entities are required to perform every element covered by a patent holder's claim of patent infringement, that is generally described as an instance of "divided infringement" (also referred to as "joint infringement" or "split infringement"). In other words, the combined actions of multiple entities, instead of the actions of a single entity, are necessary to satisfy all of the elements of the patent holder's patent claim.

Therefore, patent holders and alleged infringers alike may have hoped for clear guidance when, at the end of last Summer, the en banc Federal Circuit[13] decided a pair of cases that appeared to squarely present for resolution the extent to which an alleged infringer may be liable when the alleged infringement implicates the issue of "divided infringement." But the Federal Circuit's 2012 decision in those cases, *Akamai v Limelight* and *McKesson v Epic Systems* (referred to collectively herein as *Akamai*),[14] left unresolved many issues relating to "divided infringement."

As made clear from the summary of the *Akamai* cases provided below, there are several questions raised, but not definitively resolved, by the Federal Circuit's decision.

"Divided Infringement" and the *Akamai* decisions

After more than nine months of deliberation, the Federal Circuit issued its opinion in the Akamai cases in August 2012. The patent bar had been expecting a decision that clearly addressed the core issue of "divided infringement" under 35 U.S.C. § 271(a); i.e. under what circumstances, if any, can direct infringement be found when no single entity performs all the steps of a method claim, but, rather, all the steps are performed by multiple entities, with each performing some, but not all, of the steps. Some thought the Federal Circuit might also clarify its seemingly conflicting precedent by discussing the apportionment of liability when multiple entities together perform all of the steps of a claim, and elaborate on the relationship between, on the one hand, direct infringement under § 271(a) by multiple entities and, on the other hand, indirect infringement under 35 U.S.C. § 271(b).

While the *Akamai* the ruling was significant, the 11-judge en banc panel was split almost evenly, and the majority opinion avoided the main issues that, as noted above, appeared to be ripe for resolution. Instead, the majority opinion turned only upon whether there could be induced infringement under § 271(b) in the absence of direct infringement by a single entity under § 271(a). Six judges signed the majority opinion, four judges signed one dissent, and a fifth judge signed a second dissent.

The majority opinion

At bottom, the *Akamai* majority held that a party may be liable for induced infringement under § 271(b) even if no single entity performed all the elements of a method claim. So long as all the elements of a method claim are performed, liability may exist under § 271(b) even though no single entity may be said to directly infringe by performing all the claim elements.

Limelight had argued that it did not infringe an *Akamai* patent because Limelight did not perform one of the elements of the method, but instead instructed its customers to do so. And similarly Epic had argued that it did not infringe a McKesson method patent because patients and healthcare providers together performed all the elements and Epic performed none. The Federal Circuit explicitly declined to determine if either of these behaviors could lead to direct infringement under § 271(a).

Instead, the *Akamai* majority said such behavior sounded in induced infringement under § 271(b). Citing earlier Supreme Court and Federal Circuit precedent, the majority explained that the mere fact that the actions of multiple entities happen to match the elements of a method claim is not sufficient to create liability for induced infringement: an inducer must "act with knowledge that the induced acts constitute patent infringement" and must have "possessed specific intent to encourage another's inducement."

However, the Federal Circuit emphatically stated that an agency relationship was not necessary in order to asses liability under § 271(b) for inducing infringement. The elements of inducement, the court concluded, are (1) knowledge of the patent, (2) inducement of the performance of the steps of the claimed method (or of those steps not performed by the defendant), and (3) performance of the steps of the claimed method. Both cases, therefore, were reversed and remanded for the lower courts to make a determinations of liability for inducement under that standard.

The *Akamai* majority also held that to the extent that the Federal Circuit, in BMC Resources, Inc v Paymentech, LP , had previously indicated that there needed to be direct infringement by a single entity under § 271(a) in order for there to be liability for induced infringement under § 271(b), that precedent was overturned.

Summarising its holding, the *Akamai* majority explained that "an inducer of infringement has a duty not to cause the acts that constitute infringement even if the parties who cause the direct injury are not liable."

Judge Newman's dissent

Judge Newman's dissent in the *Akamai* cases, which was not squarely addressed by the *Akamai* majority and which was not joined by any of the other judges, sought an end to the "single entity" rule and called for confirmation that multiple entities could act together to directly infringe under § 271(a). Judge Newman criticised both the majority opinion and Judge Linn's dissent (see below), explaining that neither adequately addressed the matters briefed by the parties – "the issues of divided infringement." Judge Newman wrote that the court should "simply acknowledge that a broad, all-purpose single-entity requirement is flawed, and restore infringement to its status as occurring when all of the claimed steps are performed, whether by a single entity or more than one entity, whether by direction or control, or jointly, or in collaboration or interaction."

Judge Newman also criticised the majority's "inducement-only rule" on the grounds that an entity could be held liable on greatly enlarged grounds, such as "merely advising or encouraging acts that may constitute direct infringement" or "causing, urging, encouraging, or aiding someone to perform separate steps of a patented method." (Internal quotation marks and brackets omitted.)

And Judge Newman criticised Judge Linn's dissent, stating that "[q]uestions of divided infringement are not new, but resolution by way of the single-entity rule is plainly inadequate." In particular, Judge Newman focused on the text of § 271(a), explaining that its reference to "whoever" does not support the single-entity rule for direct infringement – "By statutory canon the word 'whoever' embraces the singular and plural."

Additionally, Judge Newman's dissent criticised the majority for limiting liability to the inducer and not extending it to all parties involved in the infringement. Judge Newman called for liability and remedies, whether for direct, induced, or contributory infringement, to be allocated "as appropriate to the particular case."

Judge Linn's dissent

Judge Linn's dissent in the *Akamai* cases was joined by three other justices. Unlike the *Akamai* majority and Judge Newman's dissent, Judge Linn's dissent would find no liability for any form of infringement in the absence of a single entity performing all steps of a method claim. Judge Linn, relying on, inter alia, the legislative history as to what constitutes infringement, rejected the majority's inducement rule on the grounds that any liability for inducement under § 271(b) requires there to be direct infringement under § 271(a). Judge Linn's dissent, therefore, necessarily reached the question that the parties briefed and that the majority did address; i.e., whether direct infringement under § 271(a) could occur if multiple entities together performed all the steps of a claimed method. Judge Linn, in contrast to Judge Newman, concluded that, consistent with its ruling in BMC Resources, Inc v Paymentech, LP, acts of divided infringement cannot not give rise to liability for direct infringement under § 271(a).

Potential impact of the *Akamai* cases

First, to the extent a patent holder involved in mobile banking patent litigation seeks to establish liability for inducement under § 271(b) against entities such as banks, credit card companies, telecoms, retailers, or e-tailers in connection with those entities providing their customers with smart phone apps or other technologies, under the *Akamai* majority opinion, the patent holder will be required to first establish that those entities actually "act[ed] with knowledge that the induced acts constitute patent infringement" and "possessed specific intent to encourage another's inducement".

Second, even though the *Akamai* majority expressly indicated that it was not deciding whether there could be liability for direct infringement under § 271(a) where multiple entities together perform all steps of a claim, the *Akamai* majority still acknowledged that, under current law, there is no direct infringement of method claims in such circumstances unless the multiple parties are acting at the direction or control of the accused infringer. That statement by the six-judge *Akamai* majority, coupled with the four judges joining Judge Linn's express endorsement of the single-entity rule for direct infringement will, absent Supreme Court review of the Akamai cases, likely make it difficult for patent holders to pursue claims of direct infringement under § 271(a) of method patent claims against entities that provide their customers with smart phone apps or other technologies but do not themselves perform all of the claimed method steps.

Third, to the extent such entities are nevertheless held liable for inducement under § 271(b), as suggested by Judge Newman's dissent, the Akamai majority opinion provides little guidance on the scope of such liability. Section 271(b) states that "Whoever actively induces infringement of a patent shall be liable as an infringer." But since the Akamai induced infringement rule is generally regarded as enunciating a new rule for establishing liability under § 271(b), it is not clear whether the traditional principles governing injunctions and damages for infringement should apply.

Fourth, the Akamai opinion seemingly raises questions regarding the extraterritorial scope of liability for inducement under § 271(b). Although the Akamai majority did not specifically address territorial issues, the language used by the majority to seemingly unmoor § 271(b) from § 271(a) suggests that the locations where the various elements of a method claim are performed are irrelevant. Rather, what matters is only that all the steps of the method are performed. Of course, given the global expanse of the mobile banking/payments industry, including the frequent off-shore outsourcing of technologies that could include steps necessary to complete allegedly infringing mobile transactions, the resolution of this issue in favor of a broader territorial reach would seemingly favor patent holders involved in mobile banking/payment patent litigation.

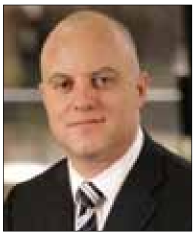
Finally, and perhaps most importantly, there is a significant possibility that the Supreme Court will review the Federal Circuit's en banc Akamai opinion and further revise the rules. This is particularly likely because the majority opinion represented the views of only six of the eleven judges participating in the ruling, and because of the wide divergence of views expressed in the dissents regarding whether and how liability for direct infringement under § 271(a) can be established based on as the result of multiple entities acting together.

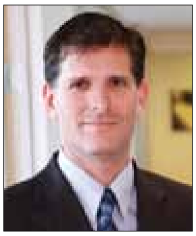
Footnotes

1. *See* Gartner Report "Forecast: Mobile Payment, Worldwide, 2009-2016." Available at http://tinyurl.com/b56zlou.
2. *See* "Popularity of Mobile Banking Jumps" available at http://tinyurl.com/a95uss5.
3. *See* "Starbucks caffeinates mobile payments with over 2M mobile transactions per week" reported 5 Nov, 2012 in Mobile Commerce Daily, available at http://tinyurl.com/a7ja4j8.
4. *See* Consumers and Mobile Financial Services, Bd. of Governors of the Federal Reserve System (March 2012), at p. 11, available at http://tinyurl.com/a4jzut5.
5. *See, eg*, "US Bank settles check-imaging patent dispute" reported Dec. 27, 2011 in Minneapolis St. Paul Business Journal, available at http://tinyurl.com/bmj4wc4.
6. *See, eg*, "Fallout: Fiserv vs FIS" reported Feb. 1, 2012 in American Banker, available at http://tinyurl.com/bh44jj9.
7. *See, eg, Joao Bock Transaction Systems of California v Cathay Bank, et a,* Case No. 10-cv-07035; *Joao Bock Transaction Systems, LLC v Bank of Stockton et al* (C.D. Cal.), Case No. 11-cv-03526.
8. *See, eg,* "Apple, Google gear up for mobile-wallet war" reported August 28, 2012 in Los Angeles Times, available at http://tinyurl.com/afsn9ty.
9. *See, eg, Maxim Integrated Products, Inc v Starbucks Corporation,* Case No. 12-cv-00005; *Maxim Integrated Products, Inc v Bank of the West,* Case No. 12-cv-00010.
10. Case No. 12-cv-02224.
11. Case No. 12-cv-00673.
12. Case No. 12-cv-04962.
13. The Federal Circuit is the penultimate arbiter of patent law in the US, outranked only by the Supreme Court.
14. 692 F.3d 1301 (Fed. Cir. 2012) (decided Aug. 31, 2012).
15. 35 U.S.C. § 271(b) provides: "Whoever actively induces infringement of a patent shall be liable as an infringer."
16. 498 F.3d 1373 (Fed. Cir. 2007).

When this article was submitted in December 2012, the Supreme Court had not granted review.

Authors





Robert D Becker is co-chair of the IP group and chair of patent litigation and prosecution practices at Manatt, Phelps & Phillips.

Neil Swartzberg is counsel with the firm's litigation group, and a member of the patent litigation practice. Both are based in Palo Alto, California, and their work includes representation of clients in patent disputes in the mobile banking and mobile payments industry.