

Keywords: joint infringement; obviousness; secondary considerations; objective indicia of nonobviousness

General: Evidence of secondary considerations must have a sufficient nexus with the scope of the claims. The “control or direction” standard for joint infringement is satisfied only when a person exercises a level of control that would traditionally make a person vicariously liable for another party’s actions.

Muniauction, Inc. v. Thomson Corp.

No. 2007-1485 (Fed. Cir. 2008)

Decided July 14, 2008

I. Facts

Muniauction, Inc. is the owner of U.S. Patent No. 6,161,099 (the ‘099 patent) directed to methods of conducting “original issuer auctions of financial instruments,” i.e. municipal bond auctions, over the internet, using a conventional web browser. A typical bond package includes a variety of bonds with different principle amounts and different maturity dates. The typical bid includes a set of prices and corresponding interest rates differentiated by the maturity date of the bonds included in the package. The pricing and interest rate information entered by the bidder is then used to calculate a total interest cost to the issuer, i.e. the municipality. The bidder with the lowest total interest cost wins the bid. In one embodiment of the ‘099 patent, bidders may submit bids for and purchase entire bond packages. In another embodiment, bidders may submit bids for a portion of the bond package corresponding with a particular bond maturity date, and the bond package may be split between the winning bidders. Both of the relevant independent claims encompass both embodiments.

Thomson Corporation is the owner of a competing bid system, referred to as the Parity® system, that predates the ‘099 patent. Prior to the issuance of the ‘099 patent, the Parity system allowed bidders to use a modem to submit bids over a proprietary computer network to a central server. The Parity system is discussed in the background of the ‘099 patent. Specifically, the Parity system was criticized because it required users to install specialized bidding software, and was designed to be used together with fax and other bid submission processes. By contrast, the ‘099 patent provides a system on a single server that allows bidders to prepare and submit bids using a “conventional” web browser.

After the issuance of the ‘099 patent, Thomson upgraded the Parity system to allow bidders to submit bids over the internet using a web browser, rather than over a proprietary computer network. Three years after the upgrade, Muniauction, under the theory of joint infringement, sued Thomson for infringement of the method claims of the ‘099 patent in the United States District Court for the Western District of Pennsylvania.

At trial, the jury found that the claims of the ‘099 patent were not obvious and that Thomson willfully infringed independent claims 1 and 31, and dependent claims 2, 9, 14, 18, 20, 24, 32, 36, 40, 42, 46 and 56 of the ‘099 patent, awarding Muniauction \$38,482,008 in lost profits damages. Thomson filed a motion for judgment as a matter of law (JMOL) or a new trial, asserting, inter alia, that the claims of the ‘099 patent were obvious and that the claims of the ‘099 patent were not infringed under the appropriate standard for joint infringement. The trial judge denied Thomson’s

motion and raised the damages award to \$76.9 million plus \$7.7 million in pre-judgment interest and granted a permanent injunction against Thomson.

II. Issues

- A. Are the claims of the '099 patent obvious?
- B. Did Thomson infringe the claims of the '099 patent under the theory of joint infringement?

III. Discussion

A. Yes, in part. The court found that independent claims 1 and 31 and dependent claims 9, 14, 36, and 56 were obvious. The court first determined the scope and content of the prior art. On this issue, Muniauction argued that the prior art Parity system did not perform the step of “automatically calculating an interest cost value.” This assertion was supported, in part, by the Notice of Allowability, in which the Examiner stated that the Parity system did not perform the automatic computation step. However, the court stated that the expert testimony of Muniauction’s own expert witness trumped the Notice of Allowability. Muniauction’s expert witness had testified on direct examination that the Parity system *did not* include the automatic computation step, but on cross examination admitted that this conclusion was based on the fact that the Parity software, i.e. the server software, did not include an automatically computing calculator. However, according to the district court’s construction of the ‘099 claims, the automatic computation step was not limited to a particular location. In other words, according to the district court’s claim construction, the automatic calculation could be performed on the bidder’s computer, which, according to Muniauction’s expert is precisely how the Parity system worked. Citing *Tivo, Inc. v. Echostar Comm’ns Corp.*, the court stated that “an expert must compare *the construed claims* to the prior art.” (Emphasis added.) Because Muniauction’s own expert witness conceded that the Parity system exhibited all of the limitations of claims 1 and 31, other than the use of a web browser, the court concluded that substantial evidence did not support a finding that the Parity system lacked elements of claims 1 and 31 other than the use of a web browser.

Having determined the difference between the prior art and the relevant claims the court then decided whether it would have been obvious to modify the Parity system to include the web browser functionality. The court reasoned that the use of web browsers were well known at the time, therefore the combination of the parity system with web browser technology “represents a combination of two well known prior art elements.” Further, the use of the internet and web browser technology to conduct electronic auctions was also well known at the time. The court analogized the present case to *Leapfrog Enterprises, Inc. v. Fisher-Price, Inc.*, in which the court based its holding of obviousness, in part, on the reasoning that “[a]pplying modern electronics to older mechanical devices has been commonplace in recent years.” Similarly, according to the court, “adapting existing electronic processes to incorporate modern internet and web browser technology was similarly commonplace at the time the ‘099 patent was filed.”

Having concluded that Thomson established a prima facie case of obviousness, the court then addressed Muniauction’s evidence of secondary considerations of nonobviousness. Muniauction pointed to an “Innovations in American Government” award granted to Muniauction as evidence of praise and to a related newspaper article as evidence of skepticism for Muniauction’s approach. Citing *Ormco Corp. v. Align Tech, Inc.*, the court stated that secondary considerations evidence is only relevant when “the marketed product embodies the claimed features, and is coextensive with them.” The court then stated that the secondary considerations evidence provided by Muniauction lacked the required “nexus with the claims.” Specifically, the court pointed out that the press

coverage of the award focused on the availability of maturity-by-maturity bidding, while claims 1 and 31, by contrast, were written broadly enough to cover both maturity-by-maturity bidding as well as all-or-none bidding. Therefore, the award lacked “the required nexus *with the scope* of the claims.” (Emphasis added.) Regarding evidence of skepticism, the court suggested that the skepticism indicated by the newspaper article came from large investment banks that benefited from the existing all-or-none bidding system. The skepticism was, therefore, considered “market force” skepticism, which also did not have “the requisite nexus to the claimed invention.” Other secondary considerations were also presented, but the court simply dismissed them as “inadequate.”

B. No. Both parties agreed that no single entity infringed every step of the asserted claims. Citing *BMC Resources, Inc. v. Paymentech, L.P.*, the court stated that “where the actions of multiple parties combine to perform every step of a claimed method, the claim is directly infringed only if one party exercises ‘control or direction’ over the entire process such that every step is attributable to the controlling party.” The district court, in finding the evidence sufficient to support a required “connection” between the parties for a finding of joint infringement misapplied the standard. In fact, the jury instructions directed the jury to “[c]onsider whether the parties are acting jointly or together in relation to the electronic auction process. Are they aware of each other’s existence and interacting with each other in relation to the electronic auction process? Is there one party teaching, instructing, or facilitating the other party’s participation in the electronic auction process?” Regarding these jury instructions, the court stated that none of the questions identified in the jury instructions are relevant to whether Thomson satisfies the “control or direction” standard of *BMC Resources*. The court stated that, “the control or direction standard is satisfied in situations where the law would traditionally hold the accused direct infringer vicariously liable for the acts committed by another party.” Therefore, because, Thomson did not have another party perform steps on its behalf, Thomson was not liable under the theory of joint infringement.

IV. Conclusion

Expert testimony regarding obviousness must compare the prior art with the claim construction adopted by the trial court.

Evidence of secondary considerations must have a sufficient nexus with the *scope* of the claims. In other words, if the secondary considerations evidence suggests that some aspect of the claim is novel, but the claim is not limited to that point of novelty, then the evidence may be dismissed.

Simply adapting known electronic processes to include internet or web browser functionality is likely to be held obvious regardless of secondary evidence.

A party may be liable under a theory of joint infringement only if one party exercises control or direction over the entire process. The court seems to be limiting joint infringement to cases of traditional vicarious liability, such as those involving an employee-employer or work-for-hire relationship.