

Travel Sentry V. Tropp: A Threat To Direct Infringement?

By **Charanjit Brahma and Anup Shah** (January 29, 2018, 12:31 PM EST)

The Federal Circuit’s decision in *Travel Sentry Inc. v. Tropp*[1] represents the latest installment in its re-evaluation of the standard for divided infringement.

It has been a bedrock principle of patent law that to find direct infringement of a method claim, performance of all claimed steps must be attributable to a single entity.[2] Under the BMC and Muniuction standard, the actions of a third party only could be attributed to an accused infringer if they exercised “control or direction” over the third party’s acts. Imposing vicarious liability required a contractual obligation or an agency relationship with the accused infringer.[3] In *Akamai II*, the en banc Federal Circuit ostensibly did not “revisit any of those principles regarding the law of divided infringement as it applies to liability for direct infringement under 35 U.S.C. § 271(a),” but it muddied the waters by suggesting that a showing of direct infringement by a single entity was not required to prove indirect infringement.[4] The U.S. Supreme Court’s reversal of *Akamai II* invited the Federal Circuit to revisit its interpretation of the requirements for direct infringement on remand.[5]



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Since then, the Federal Circuit has reiterated support for the “direction or control” test even while diluting it. On remand in *Akamai V*, the Federal Circuit held that vicarious liability for third-party acts can attach not only when the accused infringer “directs or controls others’ performance,” but also when the accused infringer and third party “form a joint enterprise.”[6] It further clarified that the “direction or control” test is met not only where a formal contractual or agency relationship exists, but also “when an alleged infringer conditions participation in an activity or receipt of a benefit upon performance of a step or steps of a patented method and establishes the manner or timing of that performance.”[7] (referred to hereinafter as the “conditioned participation or benefit” test).

Travel Sentry broadly applied the “conditioned participation or benefit” test. Representative claim 1 required performance of the following steps:

A method of improving airline luggage inspection by a luggage screening entity, comprising:

[a] making available to consumers a special lock having a combination lock portion and a master key lock portion, the master key lock portion for receiving a master key...,

[b] marketing the special lock to the consumers ...,

[c] the identification structure signaling to a luggage screener ... that the luggage screening entity has agreed to subject the special lock associated with the identification structure to the special procedure and that the luggage screening entity has a master key that opens the special lock, and

[d] the luggage screening entity acting pursuant to a prior agreement to look for the

identification structure while screening luggage and, ..., to use the master key ... to, if necessary, open the individual piece of luggage.[8]

Travel Sentry, which administers a system that allows lock and luggage manufacturers to make products that can be opened by the U.S. Transportation Security Administration, was found vicariously liable for acts performed by TSA under a three-page memorandum of understanding. Specifically, the patentee alleged that Travel Sentry performed claim steps [a] and [b] and TSA, pursuant to the MOU, performed steps [c] and [d].

In the MOU, the TSA agreed to "accept passkey sets" and "make good faith efforts to distribute the passkeys ..., and to use the passkeys to open checked baggage secured with Travel Sentry certified locks whenever practicable ... [and] to relock Travel Sentry locks after bags are inspected." [9] Applying the "conditioned participation or benefit" test, the Federal Circuit first looked to the MOU to define the relevant "activity" for which TSA's participation was allegedly subject to conditions imposed by Travel Sentry. It held that the district court's definition of all "luggage screening" was too broad and that the "activity" instead should be limited to "screening luggage that TSA knows can be opened with the passkeys provided by Travel Sentry." [10] The court also viewed the existence of the MOU itself as "impl[ying] that the TSA believed it would receive some benefit from the arrangement" and noted that possible benefits could be either "tangible (e.g., a reduction in the number of claims submitted by aggrieved travelers or an improvement in the health of its employees" or "intangible (e.g., promotion of the public's perception of the agency)." [11] Finally, in considering whether Travel Sentry "conditions" TSA's participation in the activity or receipt of benefits, the court held that a reasonable jury could find that this element was met because the steps the TSA agreed to take under the MOU were coextensive with steps [c] and [d]. [12]

Does Travel Sentry Definitely Broaden the Test for Divided Infringement?

The procedural posture of Travel Sentry calls into question whether the decision will lead to a significant broadening of the scope of divided infringement under *Akamai V*. Procedurally, Travel Sentry reviewed the district court's grant of defendant's motion for summary judgment of noninfringement under 35 U.S.C. § 271(a), so the court's holding was limited to finding "genuine issues of material fact regarding whether Travel Sentry directs or controls performance of certain steps of the claimed methods" that precluded summary judgment. The case was remanded to the district court for further proceedings, and it is not clear that the Federal Circuit would find the "direction or control" standard for divided infringement was met on these facts if asked to review a trial verdict.

Thus, while Travel Sentry raises the possibility that a whole host of informal relationships that do not rise to the level of contract or agency may nonetheless amount to "direction or control," the decision leaves several openings to reach a different conclusion on the same facts. For example, where the MOU does not detail how or when TSA uses Travel Sentry's passkeys other than to require "good faith" and identifies no consequence to TSA for choosing not to do so, will Travel Sentry ultimately be found to "condition" a large government agency's activity or receipt of benefits?

Of course, if ultimately left undisturbed, the "conditioned participation or benefit" test arguably swallows whole the pre-existing tests for "direction and control" that required a contractual or agency relationship. Almost by definition, a contract or agency relationship will require that the controlled party receive some benefit as consideration for its performance of a prescribed activity.

Potential Impact on Application of 28 U.S.C. § 1498 Governing Otherwise Infringing Use or Manufacture by or for the United States

The particular facts of Travel Sentry also raise the question of how the Federal Circuit's broader view of divided infringement may impact cases in which "use[] or manufacture[] [of a patented invention] by or for the United States" is alleged to infringe a patent under 28 U.S.C. § 1498. Section 1498 explicitly states that "the use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States." The Federal Circuit's holding that a reasonable jury could find divided direct infringement in Travel Sentry hinges on the view that defendant Travel Sentry's actions

arguably conferred a benefit upon the TSA under the MOU. If a jury found that a benefit was conferred, it arguably follows that Travel Sentry's alleged acts of infringement (and the TSA's acts imputed to Travel Sentry) were performed "by or for the United States" and would fall within the purview of Section 1498.

Applying Travel Sentry's view of divided infringement in Section 1498 cases could represent a significant expansion in the application of that statute, which has historically been applied quite narrowly. In cases of infringement "by or for the United States," Section 1498 prescribes that the "owner's remedy shall be by action against the United States in the United States Court of Federal Claims for the recovery of his reasonable and entire compensation for such use and manufacture." Such suits typically involve scenarios in which the federal government deliberately directs or controls the actions of a government contractor or subcontractor to cause the allegedly infringing conduct of the contractor^[13], rather than the scenario in which the contractor is "directing or controlling" the actions of the government agency under the Federal Circuit's Akamai V test. While a government contractor can be sued in litigation between private parties, in such a case, Section 1498 may be invoked by the government contractor as a (waivable) affirmative defense.^[14] Where, as here, the patent claims themselves appear to require that a step be performed by a government agency ("the luggage screening entity"), that affirmative defense would likely excuse the entirety of the accused infringement.

Section 1498 jurisprudence is premised on the principle that "the Government is never 'guilty' of 'direct infringement,'" but instead commits a taking of a license to the patent in a manner analogous to eminent domain.^[15] Under this theory, Section 1498 simply codifies the government's waiver of sovereign immunity and agreement to be liable "for what would be infringement if by a private person."^[16] While that waiver of sovereign immunity may extend to scenarios in which the government directs or controls a third party — such as a contractor — in a manner that might make the government itself vicariously liable for direct infringement if it were a private party, there is arguably no similar basis to find that the government has waived sovereign immunity in a scenario like that presented in Travel Sentry where the private party contractor is the party found to direct or control the relationship. As a consequence, one possible outcome of the application of the Akamai V test to the facts of Travel Sentry may be that no party — neither Travel Sentry, which could assert Section 1498 as an affirmative defense, nor the TSA — would be liable for a "use" of the patented method that falls within the Federal Circuit's broadened test for divided direct infringement — precisely the outcome the Federal Circuit sought to avoid.

Conclusion

While Travel Sentry underscores the potential breadth of the scope of divided direct infringement under the Akamai V version of the test, it remains to be seen whether this line of cases will actually expand what it means to incur vicarious liability for divided infringement through "direction or control" of a third party's actions when juries and judges are asked to apply it to make factual findings.

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[1] ___ F.3d ___, Appeal Nos. 2016-2386, 2016-2387, 2016-2714, 2017-1025 (Fed. Cir. Dec. 19, 2017)

[2] See *BMC Resources, Inc. v. Paymentech, L.P.*, 498 F.3d 1373 (Fed. Cir. 2007); *Muniauction, Inc. v. Thomson Corp.*, 532 F.3d 1318 (Fed. Cir. 2008).

[3] See *BMC*, 498 F.3d at 1381.

[4] *Akamai Techs., Inc. v. Limelight Networks, Inc.*, 692 F.3d 1301, 1309 (Fed. Cir. 2012) (en banc)

("Akamai II").

[5] *Limelight Networks, Inc. v. Akamai Technologies, Inc.*, 134 S. Ct. 2111, 2120 (2014).

[6] *Akamai Techs., Inc. v. Limelight Networks, Inc.*, 797 F.3d 1020, 1022 (Fed. Cir. 2015) (en banc) ("Akamai V").

[7] *Id.* at 1023

[8] U.S. Patent No. 7,021,537, col. 6, ll. 6-37.

[9] *Travel Sentry*, at 6-7.

[10] *Id.* at 21.

[11] *Id.* at 23.

[12] *Id.* at 23-24.

[13] In Section 1498 patent cases brought against a government agency, a contractor may intervene as a third-party "to protect those interests which are of such direct and immediate character that the intervenor will either gain or lose by the direct legal operation and effect of the judgment," such as where the contractor owes an indemnification obligation. *American Mar. Transp., Inc. v. United States*, 870 F.3d. 1559, 1561 (Fed. Cir. 1989).

[14] *Toxgon Corp. v. BNFL, Inc.*, 312 F.3d 1379, 1381-82 (Fed. Cir. 2002) (citing *Sperry Gyroscope Co. v. Arma Eng'g Co.*, 271 U.S. 232, 235-36 (1926)). It is well-settled that in litigation between private parties, Section 1498 does not serve as jurisdictional bar that automatically divests a district court of subject matter jurisdiction. See *Toxgon*, 312 F.3d at 1382. Were it so, the Federal Circuit's holding in *Travel Sentry* arguably would have required immediate dismissal of the appeal and rendered any holding regarding the scope of divided infringement mere dicta.

[15] *Decca Ltd. v. United States*, 640 F.2d 1156, 1170 (Ct. Cl. 1980).

[16] *W.L. Gore & Assocs., Inc. v. Garlock, Inc.*, 842 F.2d 1275, 1283 (Fed. Cir. 1988).