

In The
United States Court of Appeals
For The Federal Circuit

PHOENIX SOLUTIONS, INC.,

Plaintiff – Appellant,

v.

THE DIRECTV GROUP, INC.,

Defendant – Appellee.

APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA
IN CASE NO. 08-CV-0984, JUDGE MARIANA R. PFAELZER.

BRIEF OF *AMICUS CURIAE*
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CERTIFICATE OF INTEREST

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1. The full name of every party or *amicus* represented by me is: Conejo Valley Bar Association.
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: not applicable.
3. All parent corporations and any publicly held corporations that own 10 percent or more of the stock of the party or *amicus curiae* represented by me are: not applicable.
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: Steven C. Sereboff, Mark A. Goldstein, M. Kala Sarvaiya, SoCal IP Law Group LLP.

March 5, 2010



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CERTIFICATE OF FILING AND SERVICE

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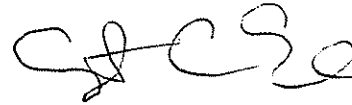
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INTRODUCTION

Phoenix Solutions v. DirecTV Group is a relatively ordinary patent case. In the case, Phoenix Solutions, Inc. (Phoenix) alleged that operation of a natural language interactive voice response system by The DirecTV Group, Inc. (DirecTV) infringed six claims of four Phoenix patents. In a final judgment dated December 2, 2009, and pursuant to the district court's Statement of Uncontroverted Facts and Conclusions of Law dated November 23, 2009, the district court held that DirecTV was not liable because some of the accused steps were performed by DirecTV but others were performed by West Interactive Corp, DirecTV's contractor. The district court held that DirecTV was not liable for the acts of West because, "West and its vendors, without input from The DirecTV Group, Inc. ... are responsible for choosing, configuring, and operating the architecture, hardware, and speech recognition software relating to the Accused Technology."

Amicus curiae writes *in pro bono publico*, rather than in support of either party. We are uninterested in the outcome of the case, though decidedly concerned about the issue. We wish to see the American public benefit from innovation, from technical disclosure, and from competition in product and service markets. In short, we support the purpose of the patent system. The Conejo Valley Bar Association believes that the patent laws

and Federal Rules of Civil Procedure should be interpreted in ways that best serve these important public policies.

ARGUMENT

This case turns on the extent of control a principal must have over an agent to impute the agent's actions on the principal. This issue is not unique to patent law, yet the district court appears to have applied a "special", non-traditional agency standard for patent infringement. We therefore write to encourage this Court to establish clear precedent that traditional agency standards apply in patent cases.

In the last three years, the Supreme Court has repeatedly reminded us that patent law is not some strange alien creature removed from the constraints of ordinary law. Patent law follows the same rules which apply to other torts. In *eBay v MercExchange*, the Supreme Court addressed the proper standard for granting injunctions in patent cases.¹ In *MedImmune v. Genentech*, the Supreme Court addressed the proper standard for determining declaratory judgment jurisdiction.² In both *eBay* and *MedImmune*, the Court held that the standard in patent cases is the same as in any other case. When the Federal Circuit departed from the established

¹ *eBay, Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006).

² *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007).

norms, the Supreme Court reminded us that patent law is a tort and must follow the norms of tort law.

In keeping with the cross-doctrinal view of patent law, in *SEB v. Montgomery Ward* this Court recently relied upon three non-patent cases to aid its interpretation of “knowledge” in the context of induced infringement.³ In this way, this Court, like the Supreme Court in *eBay* and *MedImmune*, adhered to the traditional common law applicable to all torts.

Now before this Court is *Phoenix Solutions v. DirectTV*, a case in which the rule of agency applied by the district court is unclear, and may not conform to traditional principal/agent analysis. We write as *amici* to urge this Court to follow the precedent set in *eBay*, *MedImmune* and *SEB* to clarify that traditional agency standards apply in patent cases and that there is no special patent rule of agency.

In general, the law of agency is quite simple.

Agency is the fiduciary relationship that arises when one person (a “principal”) manifests assent to another person (an “agent”) that the agent shall act on the principal’s behalf and subject to the principal’s control, and the agent manifests assent or otherwise consents so to act.⁴

³ *SEB S.A. v. Montgomery Ward & Co.*, ___ F.3d ___, 2010 U.S. App. LEXIS 2454 (Fed. Cir. Feb. 5, 2010).

⁴ Restatement (Third) of Agency, Section 1.01 (2006).

The district court erred if it required in this case a higher degree of control or direction than is required under the traditional rules of agency.

The district court correctly summarized the public policy favoring vicarious liability for patent infringement:

12. In order to address a potential loophole in the requirement that an accused party practice each and every element of a claim (e.g., a situation where multiple parties perform different steps of a patented process), the law allows for direct infringement liability if the accused infringer “directs or controls” a third party’s performance of infringing steps. *BMC Resources* explained that vicarious liability could be imposed on a party in control (“the mastermind”), for example, if it contracted out steps of a patented process to another entity to attempt to avoid infringement, *BMC Resources*, 498 F.3d at 1381.⁵

The district court then correctly explained the law of vicarious liability in patent cases:

16. “[F]or liability to attach, the ‘mastermind’ must so control the third party *in its performance of the infringing steps* that the third party does so as the defendant’s agent. The degree of control must be such that the defendant could be vicariously liable for the third party’s performance.” *Emtel*, 583 F. Supp. 2d 839.

However, then the district court seemed to depart from the traditional law of agency. The district court found in another district court decision,

⁵ Statement of Uncontroverted Facts and Conclusions of Law at 3 (11/23/2009).

Rowe, an extra degree of control required of a principal not applicable in other areas of tort (emphasis added):

17. A party cannot be subject to vicarious liability for the acts of another unless it is the “mastermind” controlling or directing the completion of the entire process such that each step in an asserted claim is attributable to it. *Muniauction*, 532 F.3d at 1329-30 (“That Thomason controls access to its systems and instructs bidders on its use is not sufficient to incur liability for direct infringement.”). Thus, an element-by-element analysis of the asserted claims is appropriate. *Rowe Int’l Corp. v. Ecast, Inc.*, 586 F. Supp. 2d 924, 932 (N.D. Ill. 2008) (“[T]he test under *BMC Resources* is whether one party effectively controls or directs others such that it can be said to practice *every element* of the asserted claims.” (emphasis added)).

That an agent must practice each element of a claim for a patent to be infringed is well known, and *Rowe* states nothing more. However, the district court appears to believe that the principal must specifically control or direct each element, on an element by element basis.

In contrast, in traditional agency law, the principal has liability for the acts of the agent so long as the principal had sufficient control or direction over the agent who practices claimed elements. This is reflected in the Restatement (Third) of Agency, relied on by this Court in *BMC Resources v Paymentech*:

§ 7.03 Principal's Liability--In General

(1) A principal is subject to direct liability to a third party harmed by an agent's conduct when

(a) as stated in § 7.04, the agent acts with actual authority or the principal ratifies the agent's conduct and

(i) the agent's conduct is tortious, or

(ii) the agent's conduct, if that of the principal, would subject the principal to tort liability; or

(b) as stated in § 7.05, the principal is negligent in selecting, supervising, or otherwise controlling the agent; or

(c) as stated in § 7.06, the principal delegates performance of a duty to use care to protect other persons or their property to an agent who fails to perform the duty.

(2) A principal is subject to vicarious liability to a third party harmed by an agent's conduct when

(a) as stated in § 7.07, the agent is an employee who commits a tort while acting within the scope of employment; or

(b) as stated in § 7.08, the agent commits a tort when acting with apparent authority in dealing with a third party on or purportedly on behalf of the principal.

According to the Restatement, liability is found in the principal so long as the agent acts with actual or apparent authority, and either the

agent's conduct is tortious or the agent's conduct, if that of the principal, would subject the principal to tort liability. This traditional statement of agent liability applies to patent infringement just as it does with other torts.

To understand how traditional rules of agency should apply to this case, we suggest that the Court consider the outcome if this were a traditional tort case and not a patent case. For example, consider whether DirectTV would be liable if a customer called DirecTV's toll-free number, was routed to West's IVR system, and West's IVR system emitted a piercing tone which caused hearing damage to the customer. Similarly, consider whether DirectTV would be liable if West's IVR system captured the customer's question and then published the customer's statements in a defamatory fashion.

In this case, the district court concluded that the principal has no liability for the agent unless the principal in effect "guided the hand" of the agent. This ignores the rule of agency that it is enough that the agent acts with apparent authority in dealing with a third party on behalf of the principal. The district court recognized that DirecTV hired West to provide services which amounted to practicing some of the elements of the claims. Yet the district court required an extra degree of control or direction that

seems to conflict with traditional agency law. With respect to each of the asserted patents, the district court stated:

DirecTV is not involved in any of the decisions about whether or how to deploy any of the above claim elements alleged to be in the Accused Technology.

As a matter of law, this is not the relevant issue. The issue under traditional agency law is whether West acted with actual or apparent authority of DirectTV.

The Supreme Court has enforced the traditional common law applicable to all torts that principals are vicariously liable for acts of their agents acting in the scope of their authority. In a case regarding the Fair Housing Act, the Supreme Court rejected a nontraditional vicarious liability principle used by the Ninth Circuit. *Meyer v. Holley*, 537 U.S. 280 (2003) (“It is well established that traditional vicarious liability rules ordinarily make principals or employers vicariously liable for acts of their agents or employees in the scope of their authority or employment.”). Likewise, the DC Circuit recently used the traditional standard for agency in a case concerning the Shipping Act of 1984. *Landstar Express America, Inc. v Federal Maritime Commission*, 569 F.3d 493 (D.C. Cir. 2009) (“common law agency principles provide members of the public with adequate safeguards in their dealings with agents: If an agent breaches a contract or

commits a tort, the disclosed NVOCC principal in whose name the agent acts is subject to liability.”). In a similar fashion, the traditional law of agency should apply to patent law cases.

CONCLUSION

We encourage this Court to act in accord with Supreme Court, Federal Circuit and DC Circuit precedent and apply the traditional vicarious liability rules in this case.

March 5, 2010



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CERTIFICATE OF FILING AND SERVICE

I, Steven C. Sereboff, certify that this **BRIEF OF *AMICUS CURIAE***
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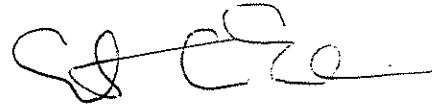
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CERTIFICATE OF COMPLIANCE

Pursuant to Federal Rule of Appellate Procedure 32(a)(7)(C), the undersigned certifies that this brief complies with the type-volume limitations of Fed. R. App. P. 32(a)(7)(B)(i).

1. Exclusive of the exempted portions of the brief, as provided in Fed. R. App. P. 32(a)(7)(B)(iii), this brief includes 1,888 words.
2. This brief has been prepared in proportionally spaced typeface Microsoft Word 2003 in 14 point Times New Roman font. As permitted by Fed. R. App. P. 32(a)(7)(C), the undersigned has relied upon the word count of this word-processing system in preparing this certificate.

March 5, 2010



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