

Federal Circuit Clarifies Vicarious Liability Standard for System Claim Infringement

2 MIN READ

December 30, 2024, 8:01 AM

By: Don Z. Wang 王哲楠, Jeannine Yoo Sano, Eric Krause, Pan Lee

When can a customer's use of a system claim be vicariously attributed to the system component manufacturer? In *CloudofChange v. NCR Corp.*, No. 2023-111, the Federal Circuit held that the manufacturer must direct or control the customer's use of the *entire* claimed system under *Centillion*, which is "fundamentally different" from the concept of use of a patent method or process under *Akamai*.

The patents at issue are directed to a system for a merchant to build its own point-of-sale (POS) system. The asserted system claims specifically require "an internet connection" and two separate entities: (1) a vendor providing a remote server; and (2) a subscriber (i.e., merchant) possessing POS terminals. CloudofChange asserted infringement by NCR's web-based POS building solution, which allows NCR's merchant-customers to build their own POS screens/menus. NCR provides the accused back-end server, but the merchant-customers are responsible for their own Internet connections and most supply their own POS terminals. Notably, NCR's Merchant Agreement makes the merchant-customers responsible for obtaining and maintaining the required Internet connection.

At trial, ChangeofCloud had abandoned all indirect infringement theories and direct infringement theories based on importing, making, and selling the claimed system, and pursued direct infringement based solely on "use," i.e., that NCR directly infringed by putting the accused system into beneficial use. NCR moved for JMOL of non-infringement following

the jury verdict of infringement, arguing that NCR did not control or benefit from the accused system by putting it into service. Despite agreeing that it was NCR's merchant-customers — not NCR — which put the accused system into service, the district court denied NCR's motion based on vicarious liability on the part of NCR for its customers' use. Specifically, Judge Albright found that NCR "directed or controlled its merchant-customers' use of the claimed system" because NCR imposed the contractual obligation for obtaining/maintaining Internet access on its merchant-customers.

Reasoning that the district court "erred by focusing its direction or control analysis on one element of the system — Internet access," rather than "whether NCR directed or controlled its merchant-customers actions in putting the entire claimed system to service," the Federal Circuit reversed. Since NCR's merchant-customers put the accused system into service "of their own accord" by subscribing to the accused system, downloading the accused app, and initiating actions at the POS terminals, the Federal Circuit concluded that NCR did not exercise direction or control over the entirety of the claimed system to support vicarious liability.

That NCR's Merchant Agreement makes merchants responsible for obtaining and maintaining Internet access does not equate to contractually obligating merchants put the entire accused NCR Silver system into use ... As the contractual obligation to supply an Internet connection does not amount to direction or control of a merchant's use of the claimed system to build POS systems, we hold that NCR is not vicariously liable for that infringing use.

 cafc.uscourts.gov/...



Related People

Eric Krause
Jeannine Yoo Sano
Pan Lee
Don Z. Wang 王哲楠

Related Services

Intellectual Property

To subscribe to our publications, [click here](#).

News & Insights

- American Bar Association 2025 Asia-Pacific Conference
SPEAKING ENGAGEMENT ANTITRUST
- NBA Commercial Law Section 38th Annual Corporate Counsel Conference
SPONSORSHIP ANTITRUST
- GCR Live: Law Leaders Global 2025
SPEAKING ENGAGEMENT ANTITRUST
- The 32nd Annual Marketing Partner Forum
EVENT
- SABA North America Corporate Counsel Retreat 2025
SPONSORSHIP ANTITRUST
- Axinn Promotes Michael O'Mara to Partner, Lindsey Strang Aberg, Ali Vissichelli, Eva Yung to Counsel
NEWS ANTITRUST
- Is 2025 the Year that the International Trade Commission Gives Guidance on Standard Essential Patents?
AXINN VIEWPOINTS INTELLECTUAL PROPERTY
- Is It Fair? The FTC's Policies and Enforcement Actions on Unfair Methods of Competition Under Section 5
PODCAST ANTITRUST
- Forecasting Health Care Antitrust Under a Second Trump Administration
PODCAST ANTITRUST
- GCR 100 2025 Ranks Axinn Antitrust Group in Top Categories
AWARDS & RECOGNITIONS ANTITRUST