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IP FLASH

ASSESSING INFRINGEMENT LIABILITY FOR SOFTWARE/PRODUCT COMPONENTS

On December 23, 2008, the U.S. Court of Appeals for the Federal Circuit issued a decision that significantly impacts the determination of patent infringement, particularly involving software and method claims. In *Ricoh Co. v. Quanta Computer Inc.*, 550 F.3d 1325, 89 USPQ2d 1577 (Fed. Cir. 2008), Ricoh appealed from summary judgment dismissing all claims against Quanta in a lawsuit involving optical disk drive technology patented by Ricoh. Among other things, the Federal Circuit considered issues of direct infringement, inducing infringement and contributory infringement of Ricoh's patented methods in the context of Quanta's software and product components.

Direct infringement is defined in 35 U.S.C. §271(a) as: "whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States…infringes the patent." Ricoh argued that the sale of software that causes devices to perform claimed methods directly infringes the claimed methods. Recognizing ambiguity in the application of the concept of a software sale to the actual carrying out of a sequence of actions, the court concluded that the act of selling the software does not directly infringe a method claim because such direct infringement requires that the instructions of the software actually be executed to perform the claimed method steps. Inducement to infringe is defined in §271(b) as: "[w]hoever actively induces infringement of a patent shall be liable as an infringer." The court noted that a finding of inducement requires a threshold finding of direct infringement and, citing to the Supreme Court's analysis in *Grokster*, stated that a communication of encouragement to an infringer is the preeminent but not exclusive way of showing that active steps were taken with the purpose of bringing about infringing acts, concluding that other evidence besides communications may be used to establish an intent to induce infringement. *MGM Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005).

Of particular interest is the court's holding involving contributory infringement in the context of product components. Contributory infringement is defined in §271(c) as: "[w]hoever offers to sell or sells within the United States… a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer." The court held that the inclusion of a component with substantial noninfringing uses in a product having other components useful only to infringe a process patent does not defeat liability for contributory infringement. Citing to *Grokster*, the court stated that it may be presumed that "one who sells a product containing *a component that has no substantial noninfringing use* in that product does so with the intent that the component be used to infringe"(original emphasis). The court also distinguished the *Sony* case where it was held that use of a VCR to "time-shift" television shows for later viewing was a substantially noninfringing use of the VCR. *Sony Corp. of America v. Universal City Studios, Inc.,* 464 U.S. 416 (1984). The court noted that, critically, in *Sony* the same recording features of the VCR were employed for either an infringing or noninfringing use. The court remanded the case for further proceedings on the issue of whether Quanta's optical disc drives contained components having no substantial noninfringing use.

The Federal Circuit's analysis raises important issues concerning infringement of method claims, particularly involving software. Under the court's analysis, component pieces of software or hardware, for example a microcontroller with encoded routines, may lead to accusations of contributory infringement if those component pieces have no substantially noninfringing uses. Bundling such component pieces with other components that have substantially noninfringing uses may not avoid liability for contributory infringement. Contracts and agreements with suppliers and distributors of product components should be reviewed with this in mind.

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