

RICOH V. QUANTA **NEW LAW ON INDIRECT INFRINGEMENT**

The Case

On December 23, the Federal Circuit issued an opinion in the case of *Ricoh Co. v. Quanta Computer Inc.* The case, if not modified by an *en banc* Federal Circuit or the Supreme Court, will likely lead to an increased burden on defendants as well as increased discovery and litigation costs in patent infringement cases involving allegations of indirect infringement of method claims.

Procedurally, the case is an appeal from a grant of summary judgment in favor of the defendants. The important facts of the case are: 1) Ricoh owns patents claiming a method of optical recording on a disc; 2) Quanta and the other defendants manufacture and sell optical disc drives capable of both playing and recording discs; and 3) the disc drives include components used only to perform the infringing write methods.¹

The Federal Circuit Opinion

With respect to direct infringement, the Federal Circuit held that the sale of disc drives that include "software containing instructions to perform a patented method does not infringe the patent under § 271(a)." In other words, software does not infringe a method claim because infringement of a method claim requires performing the actions described in the claim and "software is not itself a sequence of actions, but rather it is a set of instructions that directs hardware to perform a sequence of actions."

With regard to contributory infringement,² the court said that the defendants would be liable for contributory infringement if they "imported or sold within the United States a bare component ... that had no use other than practicing the [patented] methods...." It follows, said the court, that defendants should not escape liability for infringement "merely by embedding [such a component] in a larger product with some additional,

¹ Because the case is an appeal from a summary judgment ruling against the non-moving plaintiff, the court accepted as true the plaintiff's evidence that the accused disc "drives contain at least some distinct and separate components used only to perform the allegedly infringing write methods."

² Section 271(c) states:

Whoever offers to sell or sells within the United States or imports into 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.

separable feature before importing and selling it." Moreover, subject to the doctrine of patent exhaustion, liability for contributory infringement should not be limited to the first person in the supply chain, but should extend to others who buy the "infringing component and assemble[] it into something else"

Judge Gajarsa, writing in dissent,³ warned that now "resellers [will] come within the majority's reading of § 271(c) even though their only activity is to sell an unpatented optical disc drive (or even an entire computer system) that has multiple functions, only one of which is alleged to practice [the] claimed methods."

Section 271(c) requires more than just selling such a device. It also requires that the accused has knowledge that the component is "especially made or especially adapted for use in an infringement." The burden of proof is on the patentee to show that the accused has the requisite knowledge. The Federal Circuit panel split on this point, but the majority held that "it is entirely appropriate to presume 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 will be used to infringe." Thus, once the patentee establishes the existence of such a component in an accused product, the burden will shift to the accused to disprove that it had the requisite knowledge.

Finally, with regard to inducement of infringement under § 271(b),⁴ the court cited its 2006 decision in *DSU Medical Corp. v. JMS Co., Ltd.* *DSU* made clear that liability for inducement requires proof of both the accused's specific intent to induce another to perform the infringing acts and proof that the accused "knew or should have known his actions would induce actual infringement," *i.e.*, intent not just to cause the acts, but also to cause infringement.

Many practitioners had assumed that to show intent to induce, the patentee needed to prove that the accused inducer had communicated directly with the direct infringer to induce the infringing act. The Federal Circuit disagreed. Citing the Supreme Court's 2005 decision in *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, the panel said that while evidence of direct communication between the inducer and the direct infringer encouraging the infringement may be the preeminent way of proving intent to induce, it is not the only way. Failure to remove an infringing feature from a distributed product may be relevant to proving an inducer's "intent that those features be used for direct infringement." Also, proof of an inducer's "knowledge of the patent and control over the design or manufacturing of the product" can also be relevant to proving intent to induce infringement. Thus, said the Federal Circuit, evidence that infringing components in the disc drives were separable from noninfringing components may be relevant to proving intent to induce infringement.

³ The majority opinion does not list an author, but was issued *per curiam*. This is unusual for such a lengthy, precedential opinion. The other members of the panel are Judges Linn and Dyk.

⁴ Section 271(b) states: "Whoever actively induces infringement of a patent shall be liable as an infringer."

What You Need To Know

Patent infringement cases involving allegations of indirect infringement will be more complicated and expensive as patentees seek extended discovery. Defendants need to be aware that a lack of direct communication with the direct infringer is not an absolute defense to a charge of indirect infringement.

Component and product resellers should carefully review the indemnification provisions in their supplier agreements.

*If you have any questions regarding this issue or other patent and intellectual property matters, please contact **Bruce Wieder** at **202-776-2888** or **bwieder@dowlohnes.com**.*

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