

**Keywords:** Implied licenses; contract agreements; covenant-not-to-sue; non-infringing use doctrine

**General:** Settlement agreement between infringement plaintiff and manufacturer of accelerometer used in accused video game controllers, which specifically authorizes manufacturer to sell accelerometers for infringing uses, protects defendant against suit, since right given manufacturer would be rendered meaningless if plaintiff could sue manufacturer's customers for putting accelerometers into infringing controllers.

*Jacobs v. Nintendo of America Inc.*  
71 U.S.P.Q.2d 1055 (Fed. Cir. 2004)  
Decided May 28, 2004

## **I. Facts**

Jacobs owns the '958 patent related to a video game controller that is used by tilting it to achieve a corresponding motion in a video game. Jacobs sued various hardware manufacturers, including Microsoft and Logitech, for direct infringement of the '958. In the same action, Jacobs charged Analog with inducement and contributory infringement for Analog's production and supply of tilt-sensitive components, called accelerometers, to the other defendants. Although Jacobs did not allege that Analog's accelerometers infringed the '958 patent, he alleged that the other defendants used those components in their tilt-sensitive control boxes which allegedly infringed the '958 patent.

In July 2001, a settlement agreement was reached between Jacobs and Analog which included a license and a covenant-not-to-sue. After the settlement, Jacobs filed an infringement action against Nintendo charging Nintendo with infringing or inducing infringement of the '958 patent by producing a game implementing a controller having Analog's accelerometer incorporated therein.

Nintendo moved for summary judgment of non-infringement, asserting that it was entitled to practice the '958 patent by virtue of an implied license provided by the settlement agreement between Jacobs and Analog. The district court granted Nintendo's motion and entered a judgment of non-infringement, holding that because the settlement agreement between Jacobs and Analog permitted Analog to sell accelerometers "for use in tilt-sensitive control boxes," such as the ones manufactured and sold by Nintendo, the agreement necessarily gave Nintendo an implied license to use the Analog accelerometers in its tilt-sensitive control boxes.

In appealing to the federal circuit, Jacobs maintained that the settlement agreement protected Analog against being sued for direct or indirect infringement, but that it did not give Nintendo a general right to use Analog's accelerometers in tilt-sensitive control boxes that infringed the '958 patent. In other words, Jacobs contended that the agreement fully protected Analog against the prospect of suit for any of its conduct or any conduct by Analog's customers, but did not grant similar rights to Analog and Analog's customers.

## **II. Issues**

- A. Is Nintendo required to demonstrate that there is no non-infringing use for Analog's accelerometers to demonstrate that it has an implied license?
- B. Is the express clause authorizing Analog to make, use, or sell its accelerometers "for use in tilt-sensitive control boxes," sufficient to protect Nintendo against suit based on the use of the accelerometers in such control boxes?

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### III. Discussion

A. No. In pressing its argument that Nintendo has an implied license only if it can establish that Analog's accelerometers have no non-infringing uses, Jacobs relied on the Federal Circuit's decision and *Met-Coil*. In *Met-Coil*, the Federal Circuit held that a patent owner's sale of a machine useful *only* in practicing the claimed invention "plainly indicate[d] that the grant of the license [to practice the invention] should be inferred." Because there were no circumstances tending to show the contrary, the court upheld the district court's conclusion that the patent owner's customers enjoyed an implied license under the patent.

The "non-infringing use" doctrine applies when a patentee or a licensee sells an article and the question is whether the sale carries with it a license to engage in conduct that would infringe the patent owner's rights. In that setting, absent an express agreement between the parties, determining whether the sale conveys with it the implied right to use the article in an infringing manner may depend on whether there is any non-infringing use for the article. If there is no non-infringing use, it may be reasonable to infer that there has been a "relinquishment of the patent monopoly with respect to the article sold." In such a case, unless the circumstances of the sale indicate that a grant of a license should not be inferred, the patentee will be barred from asserting its patent rights against a downstream purchaser of the article.

The court distinguished a *Met-Coil* case based on the fact that the Jacobs-Analog agreement expressly authorized Analog to sell its accelerometers *for uses in tilt-sensitive control boxes*. The court held that the second sentence of paragraph 3 in the settlement agreement, authorizing Analog to make and sell accelerometers for use in tilt-sensitive control boxes, makes sense only if it is understood to confer on Analog the right to make and sell accelerometers for use in tilt-sensitive control boxes that would otherwise infringe Jacob's rights under the '958 patent. The court held that the question of whether there is any non-infringing use for Analog's accelerometers is completely irrelevant since the agreement expressly authorizes the sale of those accelerometers for infringing uses.

B. Yes. The federal circuit agreed with the district court's holding that the right given to Analog to sell its accelerometers for use in infringing tilt-sensitive control boxes would be meaningless if Jacobs could effectively prevent Analog from making any such sale by suing Analog's customers for putting the accelerometers into infringing control boxes and selling the resulting products. That interpretation is in accordance with the basic contract law principle that a party may not assign a right, receive consideration for it, and then take steps that would render the right commercially worthless. The court held that to interpret paragraph 3 as granting Analog only the right not to be sued for making, using or selling accelerometers for use in tilt-sensitive control boxes, would ignore the language of the second sentence of paragraph 3 that goes beyond the creation of a license by giving Analog an affirmative right to engage in the manufacture and sale of accelerometers to be used in tilt-sensitive control boxes. Further the court held that paragraph 3 would be redundant if interpreted in this manner, because paragraph 5 already ensures Analog freedom from suit "for any alleged infringement or violation of the '958 patent." If all that Jacobs intended to do through the settlement agreement was to free Analog of its liability for infringement, paragraph 5 of the agreement would be sufficient. The court further pointed out that Jacobs knew that Analog was not in the business of making game controllers, so there is no reason to believe Analog would have bargained for that right. Furthermore, as both courts noted, it is unlikely that Analog would have contracted for the right to manufacture and sell a product knowing that its customers would be unable to use the product that it sold them for the bargained-for purpose.

Accordingly, the Federal Circuit affirmed the District Court's decision, granting Defendant's motion for summary judgment of non-infringement since the Jacobs-Analog settlement agreement grants to Analog's customers an implied license to use Analog's accelerometers to make, use, and sell tilt-sensitive control boxes that infringe the '958 patent without interference by Jacobs.