In this issue of our Intellectual Property Quarterly Newsletter, we look at one aspect of the pending Patent Reform Act, the proposed changes to the “entire market value” rule that can be applied in some circumstances to damages issues in patent cases. Although the prospects for comprehensive congressional patent reform in 2007 appear dim, if any reforms like the current proposals are ultimately passed in 2008, there could be significant changes in the law relating to patent damages. We also address two recent decisions by the Federal Circuit that appear to narrow the scope of patentable subject matter. Finally, we review a recent decision by the Second Circuit regarding retroactive copyright licensing that could have a broad impact on copyright licensing generally.

As the law evolves, including the fallout from the two recent Supreme Court decisions impacting patent litigation—eBay (injunctions) and KSR (obviousness)—we will continue to offer guidance on where the law is going. We hope you find the Morrison & Foerster Intellectual Property Quarterly Newsletter helpful in keeping you abreast of developments in intellectual property law.
INTRODUCTION

Since the eighteenth century, the scope of patentable subject matter under the Patent Act has encompassed four categories—“process, machine, manufacture, or composition of matter.”¹ Until recently, these categories were broadly construed to encompass “anything under the sun that is made by man.”² In the 1998 State Street Bank decision, the Federal Circuit made it clear that this broad scope of patentable subject matter also includes business methods.³ In that case, the patented invention related to a method of allowing multiple mutual funds to pool their resources and take advantage of economies of scale.⁴ The next year, the Federal Circuit held in AT&T v. Excel that any process that provides a “useful, concrete, tangible result” is patentable subject matter.⁵ These two decisions create three new conditions for patentability not previously recognized in the case law: a “technological arts” requirement, a “non-transience” requirement, and a “tangibility” requirement.

IN RE COMISKEY: NOT ALL BUSINESS METHODS ARE PATENTABLE

In In re Comiskey,⁶ the Federal Circuit took up the issue of “business method” patents, and in doing so reinvigorated the “technological arts” requirement for patentability that the Board of Patent Appeals had rejected in Ex Parte Lundgren. In Comiskey, the claims at issue covered a “method for mandatory arbitration” comprising multiple steps, including “enabling a person to enroll,” “providing arbitration language,” “conducting arbitration resolution,” and “determining an award or a decision that is final and binding.”

Although the U.S. Patent and Trademark Office (PTO) had not addressed statutory patentability in rejecting Comiskey’s claims, Judges Dyk, Michel, and Prost of the Federal Circuit raised the issue on their own, and held that most of the claims were not patentable. The court explained that although the Patent Act states that a “process” is patentable, this term should not be read literally. The court relied on the long-standing principle that abstract ideas or algorithms cannot be patented. In its holding, the Federal Circuit explained that an algorithm or abstract idea is patentable only if it “is embodied in, operates on, transforms, or otherwise involves another class of statutory subject matter.
matter, *i.e.*, a machine, manufacture, or composition of matter.”8 The panel made it clear that an abstract idea, standing alone, is not patentable *even if* it has practical application.9 Because many of Comiskey’s claims encompassed only a mental arbitration process, with no tie to any machine, manufacture, or composition of matter, they could not be patented.

This holding—that Comiskey’s claims were not patentable because they encompass purely mental processes—contradicts the Federal Circuit’s earlier holding in *AT&T*, as well as earlier cases such as *In re Musgrave*, in which the Court of Customs and Patent Appeals held that a process was not unpatentable “merely because some or all the steps therein [could] also be carried out in or with the aid of the human mind or because it may be necessary for one performing the processes to think.”10 In effect, the *Comiskey* opinion imposes the “technological arts” requirement that the Board of Patent Appeals had declined to recognize in *Ex Parte Lundgren*, thereby substantially narrowing what patent practitioners previously believed to be in the realm of patentable subject matter.

In addition to imposing a “technological arts” requirement, the Federal Circuit in *Comiskey* provided important guidance regarding the level of novelty that would be required for inventions that attempt to combine technology with what is otherwise a mental process. Some of Comiskey’s claims could have required the use of a computer, so they met the threshold requirement of patentability under Section 101. However, the Federal Circuit remanded for the PTO to consider whether these claims were obvious. In doing so, the Federal Circuit stated that the “routine addition of modern electronics to an otherwise unpatentable invention typically creates a prima facie case of obviousness.”11 This language continues the shift in obviousness case law marked by the Supreme Court’s *KSR* decision12 and Federal Circuit opinions applying its holding.13 In *KSR*, the Supreme Court rejected the Federal Circuit’s “teaching-suggestion-motivation” (TSM) test for obviousness, under which separate prior art references could not be combined to show obviousness unless there was a teaching, suggestion, or motivation prompting one of skill in the art to make the combination.14 After *KSR*, multiple prior art references may be combined to teach a claimed invention if it makes “common sense” to do so.15 Thus, it may now be much easier to show claimed inventions are obvious in view of the prior art.

**IN RE NUIJTEN: A SIGNAL ON ITS OWN IS NOT PATENTABLE**

In the second patentability opinion issued on September 20, a divided Federal Circuit panel consisting of Judges Gajarsa, Linn, and Moore held that a signal, standing alone, is not patentable subject matter.16 Nuijten’s application disclosed a new method for “watermarking” a signal with additional data that would be imperceptible to a listener but susceptible of analysis with software designed for that purpose. The PTO allowed claims directed to the method of watermarking the signal, the device for doing so, and a storage medium containing the watermarked signal, but rejected claims directed to the signal itself, which the majority described as “transitory electrical and electromagnetic signals propagating through some medium.”17

In reviewing the PTO’s decision, Judge Gajarsa wrote for the court and held that a signal on its own is not patentable subject matter. Judge Linn
dissented. The majority addressed each of the potential categories of patentability—process, machine, manufacture, and composition of matter—and held that a signal did not fall into any of the four categories, focusing most closely on the meaning of “manufacture.” Judge Gajarsa reviewed Federal Circuit and Supreme Court precedent, and found that a signal is not a “manufacture.” In so doing, the Federal Circuit in Nuijten created two new requirements for patentability not previously recognized in any precedent. First, the majority stated that “manufacture” refers to “tangible articles and commodities.”18 As pointed out by Judge Linn in dissent, none of the authorities cited by the majority in fact support this “tangibility” requirement.19 Indeed, even if tangibility is a valid condition for patentability, it is questionable whether this rejection is even applicable to a signal, which is “tangible” to a signal processor that can sense and read the signal. Additionally, no precedent or rationale requires an invention to be tangible to a human being as opposed to a machine. Second, the majority held that inventions that are “transient” or “fleeting” are not patentable, and observed that “energy embodying the claimed signal is fleeting and is devoid of any semblance of permanence during transmission.”20 Judge Linn noted that this requirement, like the tangibility requirement, is not supported by any of the authorities cited by the majority. Judge Linn further pointed out that the Federal Circuit has previously found “fleeting” inventions patentable, particularly in the chemical arts, where transitory, non-isolatable compounds are nevertheless patentable.21

**SUMMARY AND PRACTICE TIPS**

The Comiskey and Nuijten decisions significantly narrow the scope of patentable subject matter under 35 U.S.C. § 101. En banc or Supreme Court review could alter the outcome of one or both cases, and Judge Linn’s dissent highlights that Nuijten in particular could be a likely candidate for further activity.

For the time being, however, claims directed to “business methods” or processes should always be linked to some technology or machine, and the applicant should be prepared to set forth why the combination of a mental process and technology overcomes the “prima facie case of obviousness” discussed in Comiskey. Moreover, pure signal claims should be avoided. Rather, claims should be directed to methods and apparatuses for generating or processing such signals.

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4 Id. at 1370.
7 In re Comiskey, 499 F.3d 1365 (Fed. Cir. 2007).
8 Id. at 1376.
9 Id. at 1377.
11 In re Comiskey, 499 F.3d at 1380.
13 See, e.g., Leapfrog Enters v. Fisher-Price, Inc., 485 F.3d 1157 (Fed. Cir. 2007).
14 KSR, 127 S. Ct. at 1741.
15 Id. at 1742.
16 In re Nuijten, 500 F.3d 1346 (Fed. Cir. 2007).
17 Id. at 1352.
18 Id. at 1356 (emphasis added).
19 Id. at 1358 (Linn, J., dissenting).
20 Id. at 1356.
21 Id. at 1359 (Linn, J., dissenting) (citing In re Breslow, 616 F.2d 516, 519, 521-22 (C.C.P.A. 1980), and Zenith Lab. v. Bristol-Meyers Squibb Co., 19 F.3d 1418, 1422 (Fed. Cir. 1994)).

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The Second Circuit Court of Appeals ruled last month that all retroactive copyright transfers and licenses are invalid. In *Davis v. Blige*,—F.3d—, 2007 WL 2893003, 84 U.S.P.Q.2d 1353 (2d Cir. 2007), the court found that “retroactive transfers violate the basic principles of tort and contract law, and undermine the policies embodied by the Copyright Act.” Although the decision appears sound under the facts of the case, its broad conclusions could have far-reaching effects in the world of copyright licensing.

Sharice Davis, a co-owner of two musical composition copyrights at issue, sued Bruce Miller, the alleged transferee of the rights of the other co-owner, Bruce Chambliss. Davis also sued a host of alleged licensees of the disputed compositions who obtained licenses from Miller and others, including recording artist Mary J. Blige. According to the district court’s summary judgment decision, *Davis v. Blige*, 419 F. Supp. 2d 493 (S.D.N.Y. 2005), Chambliss and Miller documented the transfer of Chambliss’s interest in the disputed compositions after the defendants recorded and distributed the disputed compositions—in fact, the transfer was not reduced to writing until the day before Chambliss’s deposition in the case.

Chambliss and Miller claimed that the writing merely ratified an earlier oral agreement that Chambliss would grant Miller certain rights in the compositions, but the district court held that the existence of this alleged oral agreement was a genuinely disputed fact issue. Nevertheless, the district court granted defendants’ summary judgment motion based on its view that the disputed fact issue was immaterial, because, in the district court’s view, past infringement could be cured through the grant of a retroactive assignment of the Chambliss copyright to Miller.

The Second Circuit disagreed, and stated that retroactive licenses and assignments are categorically impermissible. In doing so, the court distinguished district court precedent upholding retroactive licenses as valid, because the agreements in those cases were the result of negotiated settlements of accrued infringement claims. The court noted that settlements are generally retrospective in that they are a remedy for past infringement. Absent explicit language to the contrary, a settlement does not permit the unauthorized party to continue its unauthorized conduct past the date of the settlement. Licenses and assignments, on the other hand, are prospective. “They permit use by a non-owner who would not otherwise have a right to use the property….” A retroactive license or assignment, on the contrary, “purports to authorize a past use that was originally unauthorized. Unlike a settlement, which recognizes an unauthorized use but waives a settling owner’s accrued claims of liability, a
A retroactive license or assignment would—if given legal effect—erase the unauthorized use from history with the result that the nonparty co-owner’s right to sue for infringement, which accrues when the infringement first occurs, is extinguished.”

The Second Circuit’s primary concern in Davis was the fact that a retroactive license by one co-owner would eviscerate the rights of other co-owners to sue for infringement, which the court recognized as “one of the most valuable sticks in the bundle of rights of copyright.” A copyright infringer could essentially agree to settle with a single co-owner and eliminate the claims of other co-owners. But, as the court stated, a settlement agreement by one co-owner cannot “settle accrued claims held by co-owners who are not themselves parties to the agreement.”

With this statement, the court essentially overruled the contrary opinion in Country Road Music, Inc. v. MP3.com, Inc., 279 F. Supp. 2d 325 (S.D.N.Y. 2003), cited by the district court.

The court reasoned that permitting a co-owner to act in this way would run afoul of both tort and contract law principles. A retroactive license by one co-owner destroys the non-consenting co-owner’s valuable and vested right to enforce her claim. It also effectively binds the non-consenting co-owner to a contract to which she was not a party. The court also noted other justifications for its decision, including the equivalent principles enforced under patent law, public policy considerations, and the possibility of usurping the damages framework under copyright law.

The court’s broad statements in support of its holding, however, may cause some unintended complications down the road. The court’s analysis focused heavily on the damage to the rights of an un-consenting co-owner if the other co-owners were permitted to license or transfer their rights retroactively. But the court’s opinion is not limited to such a scenario.

Instead, the court stated broadly and boldly that “a license or assignment in copyright can only act prospectively.” Logically, this statement includes licenses and transfers entered into by all co-owners as well. As a result, the court may have placed constraints on copyright transactions entered into by all co-owners, even where all parties involved feel there would be enhanced value by including a retroactive transfer of copyright ownership.

In its reliance on patent law, the court cited Schering Corp. v. Roussel-UCLAF SA, 104 F.3d 341 (Fed. Cir. 1997), for the proposition that retroactive patent licenses are also impermissible. While the Schering court did hold that “the grant of a license by one co-owner cannot deprive the other co-owner of the right to sue for accrued damages for past infringement”—noting that in patent law, unlike copyright law, one co-owner cannot sue for infringement without voluntary joinder or consent of the other—the Federal Circuit did not decide that retroactive patent licenses were categorically invalid, such as when all owners consent. With regard to copyrights, however, that is precisely what the Second Circuit stated in Davis.

The Davis court also addressed whether an oral transfer, which
Copyright Licensing

Continued from Page 6

is invalid under copyright law, could later be ratified by a written agreement. The court held (perhaps unnecessarily, given the lack of any finding as to whether an oral agreement existed) that the written agreement between Chambliss and Miller could not operate to ratify the alleged earlier oral transfer. While the Copyright Act expressly requires all transfer agreements to be in writing, many courts have interpreted invalid oral transfers to operate as nonexclusive licenses, which may be granted orally. In holding that “a written confirmation of an earlier oral transfer agreement cannot extinguish a copyright owner’s accrued infringement claims,” the Second Circuit may have undermined this approach. In the opinion’s final footnote, the court stated that it need not decide whether the alleged oral agreement granted Miller a nonexclusive license to use the disputed compositions, because—even though a nonexclusive license might immunize Miller from Davis’s infringement claims—Miller would still not have been able to grant licenses to the other defendants.

This logic seems to beg the question, however, of whether—absent the subsequent licensing of the disputed compositions to Blige and the other defendants—the alleged oral transfer from Chambliss to Miller could in fact be interpreted as a nonexclusive license to Miller and hence effectively absolve Miller of any liability in this case. It remains to be seen how this opinion may be used to argue against the approach taken by many district courts of treating invalid oral transfers as valid nonexclusive licenses.

A final potentially unintended consequence of the Davis decision lies in its brisk reference (again, perhaps unnecessarily) to ABKCO Music, Inc. v. Harrisons Music, Ltd., 944 F.2d 971 (2d Cir. 1991). The court cited ABKCO in support of the principle that a copyright owner may “convey his interest in prosecuting accrued causes of action for infringement.” In doing so—although this principle was not at issue in Davis—the Second Circuit may have refuted the Ninth Circuit’s en banc reading of ABKCO in Silvers v. Sony Pictures Entmt’s, Inc., 402 F.3d 881 (9th Cir. 2005). In Silvers, the Ninth Circuit interpreted ABKCO to hold that a third party may sue for accrued infringement claims only where the same entity purchased both the copyright and the accrued claims. The Davis court’s reference to ABKCO appears to confirm that transfer of only the accrued claims is enough.

Whether the Second Circuit intended the reach of Davis to be as broad as it reads is unclear; but, as it stands, the language is unambiguous that all copyright licenses and assignments can only act prospectively. Less certain, however, is how this opinion will be used to enforce or invalidate retroactive licenses consented to by all owners. Also uncertain is how it will be used to challenge the approach of interpreting invalid oral transfers as valid nonexclusive licenses.
KSR AND REEXAMINATION

Reexamination requests continue to be filed at a record pace. According to the USPTO’s fiscal-year-end statistics, 643 ex parte and 126 inter partes requests were filed in fiscal 2007. This compares to 511 and 70 last year, respectively.

The Supreme Court’s decision in KSR v. Teleflex promises to make reexamination more popular than ever. In KSR, the Supreme Court upended twenty-five years of the Federal Circuit’s obviousness jurisprudence. It is readily apparent that by expanding the obviousness inquiry beyond the Federal Circuit’s teaching-suggestion-motivation (TSM) test, the Supreme Court has made it much easier for patent challengers to invalidate patents.

KSR is an extremely important development for reexaminations. Patent practitioners—prosecutors and litigators alike—are familiar with prosecution histories that follow this pattern: the examiner rejects a claim for obviousness, the applicant argues that the examiner did not identify any “teaching, suggestion, or motivation” to modify or combine, and the examiner immediately allows the claim.

For these and similar applications, patents may have been granted for combinations of old ideas or technical improvements that “were obvious to try,” were motivated by marketplace demands, or simply applied well-understood principles yielding predictable results. According to the Supreme Court, these should not have issued.

KSR enhances the effectiveness of using expert declarations to challenge a patent through reexamination. MPEP Sections 2217 and 2617 permit the U.S. Patent and Trademark Office (PTO) to consider “[a]ffidavits or declarations or other written evidence which explain the contents or pertinent dates of prior art patents or printed publications in more detail” in reexaminations. Given the breadth of new ways in which obviousness can now be proven (the PTO lists eight obviousness rationales in its October 10, 2007 KSR examination guidelines, of which the TSM test is only one), an expert may have greater freedom to address obviousness rationales. In a declaration, an expert can explain how one of ordinary skill would have understood the prior art; what features are inherent in the art; what results would have been predictable from a combination, substitution, or improvement; and how the techniques shown in the art represent the finite number of predictable solutions that support an “obvious to try” finding.

But there may be a limitation on an expert’s flexibility to challenge a patent in this way. An interesting twist that KSR presents in the reexamination context is that reexamination is confined to “patents and printed publications” under Section 301. How the PTO will reconcile this statutory command with its interpretation of KSR that “[p]rior art is not limited just to the references being applied, but includes the understanding of one of ordinary skill in the art” has not yet been determined.

Naturally, patentees wishing to protect their patents in reexamination should argue for a strict interpretation of Section 301, and demand that whatever information is applied against their patent claims be written down somewhere: a “printed publication.” Because this approach is essentially the TSM test in statutory clothing,
it remains to be seen whether it can pass muster under KSR. It will be interesting to see how the PTO will handle the administrative challenge of dealing with years of examination that applied the “wrong” law of obviousness. Litigants should be on the lookout for the PTO’s guidelines for applying KSR in the reexamination context, which are expected shortly.

Clients and litigators are obviously more comfortable with the reexamination process, and recent successes by patent challengers are sure to increase its popularity further. Accordingly, they must pay very close attention to how the PTO handles the administrative challenge of the increase in reexamination requests.

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**eBay Scorecard**

By Angela Rella

On May 15, 2006, the Supreme Court changed the landscape of patent cases by striking down the Federal Circuit’s long-standing rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances, and holding that “the traditional four-factor framework that governs the award of injunctive relief” applies to patent cases. *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1841 (2006) (“eBay”). The Supreme Court stated that “the decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and that such discretion must be exercised consistent with the traditional principles of equity, in patent disputes no less than in other cases governed by such standards.” *Id.*

We began tracking courts’ application of *eBay* in the spring 2007 inaugural edition of our Intellectual Property Quarterly Newsletter. This third installment of our “eBay Scorecard” tracks the application of such discretion by the district courts, and the review for abuse of that discretion by the Federal Circuit, through September 30, 2007. Included in this quarter’s count is the district court’s decision on remand in *eBay*. The district court applied the four-factor framework set forth by the Supreme Court and denied the injunction. We hope that you find the below chart helpful.

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<th>Injunctions Denied (1)</th>
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<td>No</td>
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**Cumulative Total**

(July 1, 2007, through September 30, 2007)

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<th>Injunctions Granted (26)</th>
<th>Injunctions Denied (8)</th>
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<td><strong>Plaintiff Practices Invention?</strong></td>
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The calls for patent reform legislation have spawned numerous debates and proposals, culminating in the passage of H.R. 1908 by the House and the pending S. 1145 in the Senate. Our focus here is on one potential change that could have a dramatic effect on patent litigation. We explain the state of existing law on the “entire market value rule” of damages, review the changes in the pending legislation, describe the advocates lobbying on the proposal, and try to predict what will result if the legislation in its current form passes.

The “Entire Market Value Rule” and Its Impact

The entire market value rule (“EMV rule”) has been a powerful tool for patentees and a source of fear for alleged infringers. This doctrine “permits recovery of damages based on the value of the entire apparatus containing several features, where the patent related feature is the basis for customer demand . . . .” *Imonex Services v. W.H. Munzprufer Dietmar Trenner*, 408 F.3d 1374, 1379-80 (Fed. Cir. 2005). The question of whether the EMV rule will apply has a significant impact on the accused infringer’s exposure.

In the classic hypothetical, the owner of a windshield wiper patent sues car manufacturers and seeks reasonable royalty damages. A critical issue will be whether the patentee’s damages are calculated using the market value of the windshield wiper as the royalty base or the entire car, whose price is orders of magnitude higher. The answer can considerably affect the value of the case: while the car may have a market value of $35,000, the windshield wiper will have a price tag that is a fraction of that. This might not matter if there is a corresponding adjustment to the royalty rate that gets applied to the base—i.e., if the rate moves down as the base moves up, the final reasonable royalty number would come out the same. But that does not often occur in practice. Accordingly, even when a patentee’s likelihood of prevailing is low, the threat that the EMV rule will apply and lead to an exorbitant royalty base can play a big role in settlement posture.

The Federal Circuit’s standard on this question seems clear on its face—the EMV rule can apply when the patented feature is “the basis” for customer demand. But does this mean the claimed invention must be the *sole* basis for demand? The *predominant* basis for demand? Is it sufficient if the patented feature is *one of several* features that drive customer demand? Ambiguity abounds.

Uneven Application in the Cases

Some district courts have applied the EMV rule strictly, and refused to use the larger product as the royalty base when the patented component was not the sole or predominant driver of product demand. In the recent Alcatel-Lucent/Microsoft case, the judge reversed a $1.5 billion verdict against Microsoft because he concluded that the jury misapplied the EMV rule. *Lucent Technologies, Inc. v. Gateway, Inc.*, 2007 U.S. Dist. LEXIS 57135 (S.D. Cal. Aug. 6, 2007). The jury based damages on the sales price of PCs, even though the patents only covered particular features of MP3 technology. But there was a “lack of evidence showing that the patented features set forth in the claims . . . were the basis for customer demand.” While Lucent cited evidence suggesting “that MP3 capabilities overall were a
commercially important feature,” it cited no evidence that the claimed features “were critical to MP3,” “established the basis for the customer demand or value of MP3,” or “were critical or provided value to the whole computer.” Id. at *67-*73.

In Volovik v. Bayer Corp., 2004 U.S. Dist. LEXIS 300 (D. Minn. January 7, 2004), the patent owner sought EMV rule damages for selling blood-testing products, even though the patent only covered a specific kind of pump. The court disagreed, partly because the defendant’s engineer merely “testified that the performance of the pump is ‘one of the things’ that is critical to the functioning of the system. He did not say, however, that a particular pump was critical or that only a pump was critical to the performance.” There was no evidence “that customer demand was driven by the allegedly infringing pumps.” Id. at *31-*32.

Despite such decisions, uncertainty persists. For one thing, the Federal Circuit has applied the EMV rule broadly. Bose Corp. v. JBL, Inc., 274 F.3d 1354 (Fed. Cir. 2001), where Bose asserted its loudspeaker “porting” patent, is illustrative. “Porting” pertains to a tube inside a loudspeaker that enhances sound quality. At trial, damages were based on the value of the entire loudspeaker, even though the ports were a small component of the system. The Federal Circuit affirmed because the patented feature “inextricably worked with other components of loudspeakers as a single functioning unit to provide the desired audible performance,” it “improved the performance of the loudspeakers and contributed substantially to the increased demand for” them, and Bose “provided testimony on its increase in sales in the year following the introduction of its speakers containing the invention.” Notably, the court did not say the patented feature was “the” basis for demand or a “predominant” factor. See also Tec Air v. Denso Mfg. Michigan, 192 F.3d 1353, 1362 (Fed. Cir. 1999) (allowing EMV damages even though no evidence that patented method was “the sole” or “predominant” source of demand for radiator assemblies); Fonar Corp. v. General Elec. Co., 107 F.3d 1543, 1552 (Fed. Cir. 1997) (allowing EMV damages for MRI machines where patented feature was a source of demand).

**LEGISLATION DESIGNED TO CURB PERCEIVED EMV ABUSE AND UNCERTAINTY**

There is a perception in some industries that the uncertainty surrounding the standard is plaguing litigation. A common scenario in recent years is litigation against PC or notebook computer makers by plaintiffs whose patents cover a chip carrying out some specialized functionality (e.g., video graphics, audio files, or wireless communications). Such a chip may be one of hundreds of the notebook’s components, and may cost on the order of $25: a trivial amount compared to the price of the $1,500 notebook. But if the EMV rule applies, then the royalty base becomes $1,500, rather than $25. As long as the uncertainty persists, some argue, patentees have the incentive to insist on trials or exorbitant settlements.

To address this uncertainty and the specter of windfall recoveries, proposed legislation would narrow the circumstances where the doctrine applies. In general, coalition groups of large high-tech, credit card, and financial services companies—such as the Coalition for Patent Fairness (CPF)—support the legislation. The CPF includes Apple, Dell, Microsoft, HP, Cisco, Intel, Oracle, Visa, and MasterCard. Many of their products are priced on the order of $1,000 and contain components that might implicate thousands of patents. For them, the risk of the EMV rule applied over multiple lawsuits
acusing different components is especially acute.

Manufacturing groups, smaller inventors, labor interests, biotechnology groups, and pharmaceutical companies are generally opposed to the legislation. One of the most prominent lobbying groups is the Coalition for 21st Century Patent Reform (“21st Century Coalition”), which includes Abbott, Baxter Healthcare, Beckman Coulter, Bristol-Myers, DuPont, Eli Lilly, Merck, Monsanto, and Pfizer. Biotech and pharmaceutical companies are typically threatened by patents covering their entire product rather than constituent parts. They are accordingly more concerned about obtaining robust awards as plaintiffs than they are fearful of excessive damages on component parts.

The proposals would narrow application of the EMV rule. In H.R. 1908, which the House passed on September 7, 2007, Section 5(b)(3) provides that the EMV rule can apply only if the patent’s “specific contribution over the prior art” is the “predominant basis for market demand” for the infringing product. Otherwise, the court or the jury must: (a) apportion a royalty based on the “economic value properly attributable to the patent’s specific contribution over the prior art” by excluding the economic value attributable to the prior art and other features that are not attributable to the patent; or (b) calculate a royalty based on the terms of nonexclusive marketplace licenses or any other relevant factors. (H.R. 1908, §§ 5(b)(2), 5(b)(4).) The Senate version is similar except that the requirements for invoking marketplace licensing are more onerous. The court would need to find that prior licensing rose to the level of a pattern, and that the infringer's use is similar to the scope of rights granted by licenses, before determining damages based on the licenses. (S. 1145 Substitute, § 284(c)(1)(B).)

Although there is little commentary on Section 5(b)(3), it seems clear that it would make it harder for patentees to obtain EMV rule damages. A patentee would have to establish what specific contribution its invention made over the prior art, and then establish that this specific contribution is the “predominant” basis of the “market demand” for the allegedly infringing product. The former showing would likely require detailed technical evidence distinguishing the patent from the art at the time of invention, and the latter requirement would probably necessitate economic analysis proving that overall market demand for the infringing product—not anecdotal evidence from a few consumers—is based primarily on that specific contribution. Patentees who cannot make both showings would be confined to royalties based on apportionment or marketplace licensing. This could very well have led to contrary outcomes in Bose, Tec-Air, and Fonar.

LEGALISATION STALLED IN LIGHT OF LOBBYING

Although the House bill passed in September, the Senate legislation appears stalled, and it looks like the Senate will not take action prior to its holiday recess. One reason for the delay is that lobbying has been intense.

For example, six consumer groups wrote to Senate leaders in support of the legislation and emphasized that “[c]urrent practice has allowed patent holders to recover damages . . . based on the entire value of the infringing product even where the patented technology is a small part of the infringing product. . . . Fear of having to pay excessive damages forces defendants to settle lawsuits and license technologies even where the validity of the patent is doubtful.” Likewise, the CPF has long stated that the “amount of money potentially at stake in the litigation as a result of [the EMV rule] creates huge pressure on the defendants to settle regardless of the strength of the infringement claim.”
INTELLECTUAL PROPERTY QUARTERLY NEWSLETTER

Patent Reform Act
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In critiquing the legislation, the Commerce Department argued that the Georgia-Pacific factors already direct courts "to consider the contribution of other elements of the entire product added by the infringer." The Communications Workers of America similarly wrote that "courts already follow a multipoint system for the appropriate consideration for damages. This should remain intact rather than constricted so as to limit damage settlements." The 21st Century Coalition complained that the "prior art subtraction" requirement from the House bill is "untested," "fundamentally flawed," and "unworkable." The House methodology allegedly "heavily favors infringers, as most inventions are not as valuable at the time they are first conceived as they are after the inventor invests time and money to develop, manufacture, and market them." The AFL-CIO, IEEE, ABA, United Steelworkers, BIO, and others have raised similar concerns. Further action may not occur until 2008. But if ultimate legislation is anything like the current proposals, the landscape for patent damages will change significantly.

AWARDS AND TOP HONORS

On November 8, Chambers & Partners named the firm as a Top 3 finalist for both the Global Intellectual Property Law Firm of the Year and Global Law Firm of the Year awards. The award is recognition for the IP practice’s exceptional work around the world in all areas of IP law. Click on this link to read about the award: http://www.chambersandpartners.com/img/awards/GlobWinners2007.pdf.

The Condé Nast business publication, Portfolio.com, named Harold McElhinny to its 2007 list of Top 10 U.S. Patent Litigators. The article calls attention to Mr. McElhinny’s list of clients, including EchoStar, and reputation “for his independent judgment.” This is the latest honor presented to Mr. McElhinny, who earlier this year was inducted as a fellow into the American College of Trial Lawyers. Click on this link to read the full article: http://www.portfolio.com/resources/business-intelligence/Best-Patent-Litigators.

FROM THE DOCKET

Software Industry Abuzz over Widely Watched Copyright Case SCO v. Novell

On Friday, August 10, 2007, a Morrison & Foerster team obtained summary judgment for Novell before Judge Dale Kimball in Federal District Court in Utah. The court ruled that Novell is the owner of the UNIX and UnixWare copyrights, and that SCO was obligated to recognize Novell’s waiver of SCO’s claims against IBM. In 2003, SCO claimed that Linux was an illegal knockoff of the UNIX operating system, which SCO had purchased from Novell. This ruling disposes of that claim. The Wall Street Journal described the ruling as “a boon to the ‘open source’ software movement...that has become an alternative to Microsoft Corp.’s Windows operating system.” Novell still has claims pending regarding SCO’s alleged failure to comply with the asset purchase agreement, entering into UNIX licensing agreements without Novell’s
permission, and royalties owed from those agreements. The team was led by Michael Jacobs and Kenneth Brakebill, along with Eric Acker, Marc Pernick, Grant Kim, and David Mclaugh.

White v. Hitachi Winds Down After Summary Judgment and Reexamination Opinion
Morrison & Foerster obtained a summary judgment ruling in the Eastern District of Tennessee on September 17, 2007, for Hitachi Global Storage Technologies (Hitachi GST) in a patent suit involving disk drive technology. The firm represented Hitachi Ltd. in its 2002 acquisition of a controlling interest in IBM’s disk drive business, now renamed Hitachi GST. Hitachi Ltd. contributed its disk drive business to Hitachi GST in March 2003. Plaintiff White filed suit for infringement of his 519 patent in 2004, alleging that IBM’s license terminated as a result of the Hitachi transaction. In 2005, the case was stayed pending reexamination of the patent, except for litigating Hitachi GST’s license defense. On September 17, 2007, the court granted Hitachi GST summary judgment due to a valid license. Then on October 2, 2007, the PTO issued a final rejection of the more than 100 claims in patent, which had been through a previous reexamination.

The team of IP litigators was led by Andrew Monach and Kathy Vaclavik. Kenneth Siegel and Paul Jahn headed the corporate and IP licensing transactions.

A Fixture at the ITC
2007 has been a busy year for the firm’s ITC practice. In October, the firm filed a patent-related investigation with the ITC on behalf of complainants Funai Corp. and Funai Electric Co. The case (337-TA-617) involves Digital Television technology patented by Funai. The experienced team of ITC litigators includes partner Brian Busey and associates John Kolakowski and Teresa Summers from the firm’s Washington D.C. office, partner Harold McElhinny from the San Francisco office, partner Karl Kramer from the Palo Alto office, partners Anthony Press and Hector Gallegos and associate Nicole Smith from the Los Angeles office, and partners Moto Araki, Mark Danis and Louise Stoupe from the Tokyo office. This latest action is the third ITC case the firm became involved in this year. The firm is presently handling two other ITC cases. In the first investigation, we represented complainants Toshiba Corporation and Toshiba America Consumer Products LLC (337-TA-2568) in a matter involving DVD technology against 17 Chinese manufacturers and U.S. distributors of DVD players and recorders. In the second investigation, we represented respondent Sanyo (337-TA-600) in a matter involving lithium-ion battery technology.

Broad Technical Talent on Display in the Eastern District of Texas
Clients have long known Morrison & Foerster’s IP practice has the expertise to handle matters involving any technology. And if the venue is the Eastern District of Texas, clients know Morrison & Foerster is the firm to call. This year alone, Morrison & Foerster has been retained as counsel in over two dozen cases in the Eastern District of Texas. This speaks of our
strong reputation in that influential venue. We highlight three new Eastern District of Texas cases for which we’ve been retained as counsel this fall.

We currently represent Yahoo! in a patent infringement suit filed by Performance Pricing in the Eastern District of Texas. The case (Performance Pricing v. Google, Yahoo!, et al.) involves Internet advertising technology. Morrison & Foerster partners Michael Jacobs and Richard Hung along with associate Jeremy Bock make up the litigation team.

We also represent America Online (AOL) in a patent infringement suit filed by Creative Internet Advertising in the Eastern District of Texas. The case, entitled Creative Internet Advertising v. Yahoo!, et al. claims violations of federal patent laws involving the email or instant messenger programs of Yahoo! and AOL. The core Morrison & Foerster litigation team consists of partners Rachel Krevans, John Corrado, and Jason Crotty, and associates David Hymas and Adam Kesper.

In November, the firm filed a patent infringement lawsuit (Novartis Vaccines v. Hoffman-LaRoche, et al.) on behalf of Novartis Vaccines against Hoffman-LaRoche in the Eastern District of Texas. Novartis contends Hoffman-LaRoche and the other defendants are willfully infringing a Novartis patent entitled “Antigenic composition comprising an HIV gag or env polypeptide” by making and selling the drug Fuzion in the United States. Novartis is seeking compensatory and treble damages in addition to a jury trial. Leading the San Francisco–based litigation team are Morrison & Foerster partners Rachel Krevans, Matthew Kreeger, and Jason Crotty, and associates Daniel Muino and Amy Dachtler.

About Morrison & Foerster’s Intellectual Property Practice

Morrison & Foerster maintains one of the largest and most active intellectual property practices in the world. The IP practice provides the full spectrum of IP services, including litigation and alternative dispute resolution, representation in patent and trademark prosecution, and business and licensing transactions. Morrison & Foerster’s IP practice has the distinguishing ability to efficiently and effectively handle issues of any complexity, in any venue, involving any technology. For more information about the IP practice, please visit www.mofo.com.