



## INTELLECTUAL PROPERTY LITIGATION

## Expert Analysis

# Naked Licensing, Anticircumvention, Effect of 'Bilski' Decision

Last June, in *Bilski v. Kappos*, 130 S. Ct. 3218 (2010), the U.S. Supreme Court tackled one of the most difficult issues in patent law—defining what constitutes patentable subject matter under section 101 of the Patent Act. *Bilski* affirmed the Patent Office's rejection of an application for a patent covering a method of hedging in commodities markets. It did not, however, break new ground in the ongoing effort to draw the line between inventions that deserve patent protection and patent applications that attempt to monopolize the use of abstract ideas and laws of nature.

Prior to *Bilski*, the U.S. Court of Appeals for the Federal Circuit used a "machine-or-transformation" test, finding patentability if a process is "tied to a particular machine or apparatus," or "transforms a particular article into a different state or thing." *Bilski* held that the Federal Circuit was wrong in using the "machine-or-transformation" analysis as the only test for patentable subject matter, although it found the test to be a "useful and important clue." And the *Bilski* Court emphasized that its precedents recognized only "three specific exceptions" to the broad reach of section 101—"laws of nature, physical phenomena, and abstract ideas."

Two Federal Circuit cases decided last month indicate that *Bilski* has done little to alter Federal Circuit jurisprudence.

*Prometheus Laboratories Inc. v. Mayo Collaborative Services*, 2010 WL 5175124 (Fed. Cir. Dec. 17, 2010), concerned the much-debated issue of patentability of medical diagnostic methods. The *Prometheus* patent covered a simple method for determining the optimal dosage of thiopurine drugs used to treat certain autoimmune diseases. The claimed method involved administering a drug and then determining the level of the drug's metabolites in body fluids. According to the claims, levels below a specified concentration "indicate a need" to increase dosage to optimize efficacy; levels above a higher concentration "indicate a need" to change the dosage to reduce toxicity. Dosage decisions

By  
Lewis R.  
Clayton



are, of course, made by a treating physician. In 2009, the Federal Circuit sustained the patent, but the Supreme Court granted certiorari, vacated the decision and remanded for reconsideration in light of *Bilski*.

On remand, the Federal Circuit again held the method patentable, finding that *Bilski* does not "dictate[] a wholly different analysis or a different result on remand." Applying the machine-or-transformation test, the court determined that "the asserted claims are in effect claims to methods of treatment, which are always transformative when one of a defined group of drugs is administered to the body to ameliorate the effects of an undesired condition." The required step of determining the level of metabolites is transformative because it involves "manipulation," a "chemical and physical transformation," of a blood sample.

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In the court's view, the patent does not "preempt all uses" of the "natural correlations" between "metabolite levels and efficacy or toxicity." Instead, the claims are limited to a "particular application of the natural correlations: the treatment of a specific disease by administering specific drugs and measuring specific metabolites." Other drugs, the court said, "might be administered to optimize the therapeutic efficacy of the claimed treatment."

*Prometheus* would seem to provide broad protection for medical diagnostic patents, and it is consistent with Patent Office practice. Critics

might contend, however, that the machine-or-transformation test is of questionable value in appraising medical treatment patents. A method that requires "transformation" of a blood sample in order to determine the efficacy of a drug dose arguably is no more or less patentable than a "nontransformative" method that relies simply on observation. And whether a diagnostic method "preempts" a "natural correlation" may depend on how that correlation is defined—the *Prometheus* patent appears to preempt all uses of the correlation between thiopurine drugs and the metabolites specified in the patent.

Indeed, the *Prometheus* holding may be inconsistent with the dissent from the dismissal of the grant of certiorari signed by three Supreme Court justices in *Laboratory Corp. of America Holdings Inc. v. Metabolite Laboratories Inc.*, 548 U.S. 124 (2006), which concluded that a process to diagnose vitamin deficiencies by measuring levels of homocysteine in body fluids was not patentable.

The Federal Circuit also sustained a method patent in *Research Corp. Technologies Inc. v. Microsoft Corp.*, 2010 WL 4971008 (Fed. Cir. Dec. 8, 2010). There the patents claimed methods of "halftoning," used in computer displays and printers to simulate a continuous tone image through the use of black or colored dots. The Federal Circuit noted that the Supreme Court in *Bilski* "did not presume to provide a rigid formula or definition" to determine when a patent claims an abstract idea. It found that a patent should not be invalidated unless it "so manifestly" claims an abstract idea so as to "override the broad statutory categories of eligible subject matter" described in the Patent Act. While the "algorithms and formulas" were a "significant part of the claimed combination," they did not "bring this invention even close to abstractness that would override" the liberal standards of the statute.

Given that the *Bilski* opinion encouraged the Federal Circuit to develop "other limiting criteria that further the Patent Act's purposes and are not inconsistent with its text," it may be a while before the Supreme Court again considers the issue of patentable subject matter. Until then, the Federal Circuit will continue, case by case, to set the boundary between the limited monopoly conferred by a patent and the ideas and natural laws reserved for the public domain.

LEWIS R. CLAYTON is a litigation partner at Paul, Weiss, Rifkind, Wharton & Garrison LLP and co-chair of the firm's intellectual property litigation group. He can be reached at lclayton@paulweiss.com. JULIA A. DERISH, an associate with the firm, assisted in the preparation of this article.

## Trademark

The U.S. Court of Appeals for the Ninth Circuit emphasized the importance of supervising trademark licensees when it ruled that a trademark owner had abandoned its rights by engaging in naked licensing. In *Freecycle sunnyvale v. The Freecycle Network*, 2010 WL 4749044 (9th Cir. Nov. 24, 2010), The Freecycle Network (TFN), an organization dedicated to facilitating the recycling of goods, had authorized Freecyclesunnyvale (FS) to use the trademarked “Freecycle” logo on a Yahoo! Groups website. Two years later, however, TFN demanded that FS stop using the mark. The Ninth Circuit affirmed summary judgment in favor of FS, finding that TFN had abandoned its ownership rights because it engaged in naked licensing by failing to retain express or actual control over FS’s quality control measures, and unreasonably relying on the licensee’s quality control measures.

“Naked licensing,” which occurs when a licensor fails to exercise adequate quality control over the licensee, estops the owner from asserting rights in the trademark. The *Freecycle* court rejected TFN’s argument that an e-mail stating “just don’t use it for commercial purposes...” was sufficient, noting the lack of an express contractual right to inspect or supervise FS’s services. TFN had not maintained actual control over FS’s use of the trademarks, either; TFN’s “Keep it Free, Legal, and Appropriate for all Ages” standard was not required nor uniformly applied by local groups such as FS. Moreover, TFN failed to show justifiable reliance on the licensee’s quality control measures, which is applicable only when the licensor and licensee share a “close working relationship.”

The U.S. Court of Appeals for the Seventh Circuit articulated a unified standard for awarding attorney’s fees under the Lanham Act in *Nightingale Home Healthcare Inc. v. Anodyne Therapy, LLC*, 2010 WL 4721581 (7th Cir. Nov. 23, 2010). Section 35(a) of the Lanham Act, which simply allows an award of fees in “exceptional” cases, provides little guidance and has resulted in wide variation among circuits. The Fourth and D.C. circuits, for example, distinguish between plaintiffs and defendants, requiring bad faith or willful infringement for recovery of plaintiff’s attorney’s fees but a lesser showing such as economic coercion for prevailing defendants. The Second, Fifth, and Eleventh circuits require plaintiffs and defendants to prove bad faith or (for prevailing defendants) that the suit was a fraud. The First, Third, Eighth, and Ninth circuits do not require bad faith, and do not distinguish between plaintiffs and defendants.

Writing for the court, Judge Richard Posner analyzed each circuit’s test, as well as legislative history and practical concerns, concluding that a fee award is available when the losing party advanced an “objectively unreasonable” claim or defense that would be “extortionate in character if not necessarily in provable intention.” Distinguishing between plaintiffs and defendants in trademark cases was inappropriate because both parties are usually “symmetrically situated.” On that basis, the Seventh Circuit affirmed the grant of fees to the defendant, finding that plaintiff’s Lanham Act claim had “no possible merit” and was an attempt to coerce a price reduction from the

defendant. Whether this articulation will provide a unifying standard remains to be seen.

## Copyright

In *MDY Industries, LLC v. Blizzard Entertainment Inc.*, 2010 WL 5141269 (9th Cir. Dec. 14, 2010), the Ninth Circuit concluded that 17 U.S.C. §1201(a) creates a new anticircumvention right that is distinct from copyright infringement and not subject to fair use or other defenses to copyright infringement claims. Blizzard Entertainment, the creator of the extremely successful online role-playing game World of Warcraft (WoW), sued MDY Industries for, inter alia, secondary copyright infringement and violations of the Digital Millennium Copyright Act (DMCA).

MDY had created and sold a software “bot” that automatically plays the early levels of WoW and is designed to avoid detection by anticircumvention technology. The bot does not alter or copy the game software or allow a player to avoid paying monthly subscription fees. But Blizzard contended that the bot allows players to “advance quickly and unfairly through the game and to amass additional game assets.”

After reversing the district court’s grant of summary judgment to Blizzard on its secondary copyright infringement claims, the Ninth Circuit considered Blizzard’s claims under DMCA §1201. This provision, the court explained, creates two distinct claims: §1201(a) prohibits circumvention of “any technological measure that effectively controls access” to a protected work and grants copyright owners the right to enforce the prohibition, and §1201(b) “prohibits trafficking in technology that circumvents a technological measure that ‘effectively protects’ a copyright owner’s right.”

The Ninth Circuit ultimately held MDY liable under §1201(a)(2), explaining that this provision extends a new form of protection to copyright owners—the independent right to prevent circumvention of access controls to copyrighted works, regardless of copyright infringement. MDY’s software defeated features of the WoW software designed to prevent automated play. As the Ninth Circuit indicated, its conclusion is inconsistent with the Federal Circuit’s holding in *Chamberlain Group Inc. v. Skylink Technologies Inc.*, 381 F.3d 1178 (Fed. Cir. 2004), that claimants under §1201(a) must show that the circumventing technology “infringes or facilitates infringement of the plaintiff’s copyright.”

*HarperCollins Pub. L.L.C. v. Gawker Media LLC*, 721 F.Supp.2d 303 (S.D.N.Y. 2010), granted HarperCollins a temporary restraining order barring online media company Gawker from posting on a blog portions of Sarah Palin’s forthcoming book, “America by Heart.” Gawker had published 21 entire pages of Ms. Palin’s book without consent, and limited its post to portions of 12 pages after receiving a demand letter from HarperCollins.

Rejecting Gawker’s fair use defense, the court emphasized that Gawker had “essentially engaged in no commentary or discussion,” in that its posts “consisted of very brief introductions followed by the copied material.” In addition, the court viewed Gawker’s use as commercial in nature, because the image of Ms. Palin’s book pages was placed alongside

links to advertisements, and Gawker generates advertising revenue based on website traffic. (On this standard, almost any use by a newspaper, magazine or website might be considered “commercial.”)

The fact that the book was unpublished at the time of the posts “substantially weaken[ed]” the fair use claim. Although the court found that the effect of the use on the potential market for the book “is a matter of speculation,” it found irreparable harm was likely, considering that HarperCollins was in the “homestretch of a carefully orchestrated promotional campaign,” and stood to lose its commercial advantage. While fair use is limited for unpublished works, the court’s ruling is arguably aggressive, given the lack of evidence of market effect and the small amount of the work copied.

## Patents

Since 2008, the Federal Circuit has repeatedly granted the extraordinary writ of mandamus to direct transfer of patent actions from the Eastern District of Texas, when the parties and witnesses have little connection to that forum. In *In re Vistaprint Ltd.*, 2010 U.S. App. LEXIS 25511 (Fed. Cir. Dec. 15, 2010), the Federal Circuit refused to order a transfer, relying exclusively on concerns of judicial economy. Although the parties had no meaningful ties to the Eastern District, the court had gained “substantial experience” with the patent at issue and the underlying technology in a related case between the plaintiff and another defendant involving the same patent that was pending in the district.

The Federal Circuit warned that its holding “does not mean that, once a patent is litigated in a particular venue the patent owner will necessarily have a free pass to maintain all future litigation involving that patent in that venue.” But where the trial court “performed a detailed analysis explaining” its familiarity with the issues, and where there is a “co-pending” case involving the same patent before the trial court, a trial court ruling sustaining venue was not an abuse of discretion.