

INTELLECTUAL PROPERTY LITIGATION

Expert Analysis

Defining and Determining Patent Eligibility and Copyright Liability

A series of recent Federal Circuit opinions—as well as the Supreme Court’s decision to grant certiorari in a case concerning a controversial medical treatment patent—highlight the continuing ferment over the doctrine of patent eligibility. This doctrine defines the dividing line between inventions that may receive the benefit of a limited patent monopoly and abstract ideas that remain in the public domain.

Under section 101 of the Patent Act, any process, machine, manufacture or composition of matter—four expansive categories—is eligible for a patent. Balancing the broad reach of section 101, federal common law principles deny patent protection to laws of nature, physical phenomena, and abstract ideas. While these general principles are easy to state, they can be hard to apply, particularly to business method and biotechnology patents.

For years, the U.S. Court of Appeals for the Federal Circuit resolved this tension through the “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.” Last year, however, in *Bilski v. Kappos*, 130 S. Ct. 3218 (2010), the U.S. Supreme Court held that this test is merely a “useful and important clue,” and invited the Federal Circuit to develop “other limiting criteria” to judge patent eligibility.

In *Cybersource Corp. v. Retail Decisions Inc.*, 2011 WL 3584472 (Fed. Cir. Aug. 16, 2011), a Federal Circuit panel firmly rejected a patent covering a method of detecting fraud in Internet credit card transactions. Cybersource’s claims, the court found, purported to “encompass any method or system for detecting credit card fraud which utilizes information relating credit card transactions to particular ‘Internet address[es].’” Plaintiff’s method entailed little more than gathering and then analyzing information about other credit card transactions performed using a given Internet address. Because this method “can

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be performed in the human mind, or by a human using a pen and paper,” it was an unpatentable abstract idea.

The panel also rejected a Cybersource claim drawn to a “computer readable medium” containing program instructions to carry out this method. Patent applicants often file claims tied to the use of a computer—called *Beauregard* claims after a 1995 Federal Circuit opinion—in an effort to satisfy the “machine or transformation” test, arguing that the computer is a special-purpose “machine” claimed by the patent. Cybersource’s

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Beauregard claim failed to satisfy the test because the machine must “play a significant part in permitting the claimed method to be performed”—here no computer was required to practice the method—and because merely manipulating data did not qualify as “transformation.”

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Two weeks after *Cybersource*, a group of biotechnology patents fared better—although not without provoking strong dissent—in *Classen Immunotherapies Inc. v. Biogen IDEC*, 2011 WL 3835409 (Fed. Cir. Aug. 31, 2011). There is evidence that the timing of infant immunization against infectious diseases can influence the later occurrence of certain immune-related disorders such as diabetes, cancer, and schizophrenia.

Classen obtained a patent on methods designed to choose an optimal vaccination schedule. Before the Supreme Court’s *Bilski* decision, a Federal Circuit panel held that Classen’s claims flunked the machine-or-transformation test and was therefore unpatentable.

Reconsidering after the Supreme Court vacated and remanded that decision in light of *Bilski*, a split Federal Circuit panel reached a different result. Claims in Classen’s patents that simply called for a review of available knowledge about vaccination schedules were held unpatentable as “directed to the abstract principle that variation in immunization schedules may have consequences for certain diseases.” But claims that required “the further act of immunization in accordance with a lower-risk schedule” moved from “abstract scientific principle to specific application,” and thus passed through the “coarse filter” of patent eligibility under section 101.

An unusual statement of “additional views” by Chief Judge Randall Rader, joined by Judge Pauline Newman, the author of the court’s opinion, criticized the “rising number of challenges” under section 101 in which “litigants continue to urge this court to impose limitations not present in the statute.” Eligibility disputes, Judge Rader wrote, encourage the use of “language games” in claim drafting (such as *Beauregard* claims) that “impose high costs on patent prosecution and litigation.” Beyond promoting “gamesmanship,” Judge Rader wrote that “eligibility restrictions” can “frustrate innovation and drive research funding to more hospitable locations”—“if one nation makes patent protection difficult, it will drive research to another, more accommodating, nation.”

Dissenting Judge Moore would have invalidated all of Classen’s claims, even those requiring vaccination. “Having discovered a principle—that changing the timing of immunization may change the incidence of chronic immune mediated disorders—Classen now seeks to keep it for himself.”

Cybersource and *Classen* come against the background of two other significant cases. In *Association for Molecular Pathology v. U.S. Patent and Trademark Office*, 2011 WL 3211513 (Fed. Cir. July 29, 2011), a split Federal Circuit panel sustained the patent eligibility of claims covering isolated human genes, mutations of which are linked to breast and ovarian cancers.

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Given the significance of these issues—the Patent Office reportedly has issued thousands of patents covering “isolated DNA”—this case may well be bound for the Supreme Court.

Definitely bound for the Court is *Prometheus Labs. Inc. v. Mayo Collaborative Services.*, 628 F.3d 1347 (Fed. Cir. 2010), as certiorari was granted on June 20, 2011. *Prometheus* upheld a medical diagnostic patent that involved administering a drug and then measuring metabolites in body fluids to determine the proper dose. When it arrives, the *Prometheus* opinion will likely tell us more about the “transformative” prong of the machine-or-transformation test, and may possibly establish guidelines for the patent eligibility of a range of diagnostic and biotech patents.

Copyright

John Wiley & Sons Inc. v. Supap Kirtsang, 2011 WL 3560003 (2d Cir. Aug. 15, 2011), held, as a matter of first impression in the Second Circuit, that the first sale doctrine is inapplicable to works lawfully made outside the United States. The doctrine (section 109(a) of the Copyright Act) authorizes purchasers of copyrighted works to resell copies “lawfully made under this title,” thereby preventing copyright owners from imposing contractual restrictions on resale. Like other publishers, plaintiff Wiley sells lower-priced foreign editions of works published in the United States, and marks those books with a legend prohibiting resale in the U.S. Wiley obtained a judgment of copyright infringement against an individual who regularly bought foreign editions of textbooks through Wiley’s Asian distributor and resold them online to U.S. buyers.

A majority of the Second Circuit panel found that section 109(a) only applies to “works manufactured domestically,” so that defendant was not entitled to a first-sale defense. While it found the text of the statute to be “unclear,” presenting a “particularly difficult question of statutory construction,” the Court of Appeals relied on “instructive dicta” in the Supreme Court’s opinion in *Quality King v. Lanza*, 523 U.S. 135 (1998). *Quality King* held the first sale doctrine applicable to goods that made a “‘round trip’ journey”—first manufactured domestically, then sent abroad and finally imported back into the United States. In dicta, *Quality King* noted that foreign-made works were not “lawfully made under [the U.S. Copyright Act].”

The dissent in *John Wiley* argued that if “Congress intended §109(a) to apply only to copies manufactured in the United States,” it could have stated in the statute that the doctrine would apply exclusively to copies “lawfully manufactured in the United States under this title.” This question has sharply divided the Supreme Court: In *Omega S.A. v. Costco Wholesale Corp.*, 131 S. Ct. 565 (2010), the Court split 4-4 on the issue (Justice Elena Kagan recused herself). Proponents of first-sale protection for foreign copies argue that a contrary rule encourages copyright owners to manufacture works abroad, in order to allow resale restrictions that would otherwise be prohibited under U.S. law.

Other copyright cases show how *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006), significantly changed patent litigation, holding

that irreparable injury may not be presumed in patent cases, so that injunctions cannot be issued without satisfying the traditional four-factor test for injunctive relief, which requires a showing of irreparable harm. In two recent cases—*Flexible Lifeline Systems Inc. v. Precision Lift Inc.*, No. 10-35987 (9th Cir. Aug. 22, 2011), and *Perfect 10 Inc. v. Google Inc.*, 2011 WL 3320297 (9th Cir. Aug. 3, 2011)—the Ninth Circuit joined the First, Second and Fourth circuits in applying the *eBay* rule to copyright claims, holding that prior Ninth Circuit precedent presuming irreparable injury in copyright cases had been “effectively overruled.” The *Flexible Lifeline Systems* court wrote that “even in a copyright infringement case, the plaintiff must demonstrate a likelihood of irreparable harm as a prerequisite for injunctive relief, whether preliminary or permanent.”

The *Perfect 10* opinion indicates that, under *eBay*, copyright infringement plaintiffs must proffer a specific showing of irreparable harm. *Perfect 10*, which operated a subscription service for access to copyrighted adult images, argued that it was harmed by Google, which allegedly stored copies of *Perfect 10*’s images in a cache, allowed users to post the images through Google’s blogging service, and failed to comply with Digital Millennium Copyright Act takedown notices. The only evidence of injury *Perfect 10* submitted, however, was testimony from its founder claiming that *Perfect 10* was losing a lot of money. As it was unable to tie these losses to Google’s conduct—many other websites copied the images and *Perfect 10* had never made a profit in its 15-year history—*Perfect 10* did not show irreparable injury and the district court properly denied an injunction.

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In *Disney Enterprises Inc. v. Hotfile Corp.*, 2011 WL 2899374 (S.D. Fla. July 8, 2011), motion picture studios sued Hotfile.com, a filesharing website, for direct and secondary copyright infringement. The court held that plaintiffs stated a claim for secondary infringement, but not direct infringement. Hotfile.com allows users to upload content onto its servers; the files are copied and assigned links, which make the files available to any user who knows of the link. Hotfile.com maintains control of its systems, and can remove and block content and can block users. Users may download content from Hotfile.com for free at regular speed, or may opt to pay for faster speeds and the ability to download many files simultaneously. To encourage membership, Hotfile.com pays users to upload popular (mostly copyrighted) content.

The court explained that a defendant is not directly liable for copyright infringement when it merely offers access to copyrighted material uploaded by third parties. Rather, there must be “some element of volition or causation” connecting the infringement to the operators of the website. Because there was no such evidence—Hotfile.com and its owners were passive participants, and users uploaded and downloaded the infringing content—plaintiffs failed to plead direct infringement.

The court held, however, that the complaint alleged a claim for secondary infringement. The court found that Hotfile.com’s business model encouraged and induced its users to infringe, and that Hotfile.com “causes and contributes” to the infringements. Plaintiffs also sufficiently pleaded vicarious infringement because Hotfile.com controlled its servers, could stop the infringement, failed to do so, and encouraged infringement in order to increase its profits. Plaintiffs also stated a claim for secondary liability against the individual who “manages” Hotfile.com, based on allegations that he adopted Hotfile.com’s business model, “personally refused to implement technologies that could reduce” infringement, and paid users to upload files.

Trademarks

Can the glossy vivid red outsoles of Christian Louboutin shoes be trademarked? The district court in *Christian Louboutin S.A. v. Yves Saint Laurent America Inc.*, 2011 WL 3505350 (S.D.N.Y. Aug. 10, 2011), said no, rejecting Louboutin’s effort to enjoin distribution of red-outsoled shoes by Yves Saint Laurent (YSL). Louboutin’s red outsoles, instantly recognizable in the fashion world, have become part of popular culture. The district court had no trouble finding that the mark has acquired secondary meaning, becoming “closely associated with Louboutin.” Color alone may merit trademark protection if it symbolizes the goods’ source “without serving any other significant function.” Although color often functions exclusively as a source identifier in the case of industrial products, articles of fashion typically use color to identify source as well as to “advance expressive, ornamental and aesthetic purposes.”

Louboutin testified that he made his soles red not merely to mark them as his, but because the color imparted “energy,” is “sexy” and “attracts men to the women who wear” them. Those are functional attributes, precluding trademark protection. Moreover, granting trademark protection, the court found, would confer a “monopoly” on the color red, impermissibly restricting competition and possibly constraining the use of red by other designers in shoes, dresses, coats and other fashion articles, raising the “specter of fashion wars.” Beyond denying Louboutin an injunction, the court indicated that, were YSL to bring a motion for summary judgment, it would likely order cancellation of Louboutin’s mark.