

INTELLECTUAL PROPERTY LITIGATION

Expert Analysis

Supreme Court Affirms Reach of Rule Limiting Patents on Laws of Nature

American courts have long held that “laws of nature, natural phenomena, and abstract ideas” may not be patented. As a policy matter, the disadvantages of allowing a patent holder to preempt use of natural laws and ideas are considered to outweigh the advantages of conferring patent rights in order to encourage the discovery of natural phenomena. On March 20, 2012, in *Mayo Collaborative Services v. Prometheus Laboratories*, 132 S.Ct. 1289 (2012), a unanimous Supreme Court reaffirmed the power and reach of that rule, reversing the U.S. Court of Appeals for the Federal Circuit and invalidating patents related to a method to determine the proper dose of a drug.

The patents considered in *Mayo* instructed doctors how to determine the dose of thiopurine drugs used to treat autoimmune disorders such as Crohn’s disease and ulcerative colitis, a difficult issue because of the variation in the way that different patients metabolize those drugs. Before the claimed inventions were made, researchers knew that the levels of metabolites of thiopurine in the blood are related to the likelihood that a particular dose of the drug was too small to be effective, or so large as to risk harm. The patents identified “with some precision” the levels of metabolites associated with doses that are either too high or too low and instructed doctors to use standard blood tests to measure metabolite levels after administering the drug.

The Federal Circuit sustained the patents, relying upon its “machine or transformation” test, which is designed to determine when the subject matter of a claim is patentable under section 101 of the Patent Act. Under the test, which the Supreme Court has endorsed as an “important and useful clue” to patentability, a

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claim that is tied to a particular machine, or calls for the transformation of an article into a different state or thing, embraces patentable subject matter. Finding that the human body is transformed when the drug is administered and blood samples transformed when metabolite levels determined, the Federal Circuit came to the “clear and compelling conclusion” that the *Mayo* claims were valid.

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The Supreme Court had little difficulty coming to the opposite view. The court reasoned that “[i]f a law of nature is not patentable, then neither is a process reciting a law of nature, unless that process has additional features that provide practical assurance that the process is more than a drafting effort designed to monopolize the law of nature itself.” The patent fell short: “the claims inform a relevant audience about certain laws of nature; any additional steps consist of well-understood, routine, conventional activity already engaged in by the scientific community; and those steps, when viewed as a whole, add nothing significant beyond the sum of their parts taken separately.”

The court found the transformations that had been emphasized by the Federal Circuit to be insignificant. And the machine-or-transformation test could not save the patents: In recognizing the test as an “important and useful clue” to pat-

entability, the Supreme Court had neither “said nor implied” that the test “trumps the ‘law of nature’ exclusion.”

The court went on to reject the view, urged by the United States as amicus, that “virtually any step beyond a statement of a law of nature itself” should satisfy the subject matter requirement of section 101, and that other requirements in the Patent Act—novelty and non-obviousness, for example—should perform the “screening function” of guarding against the grant of overbroad patent claims. This approach, the court found, would make the “law of nature” exception to patentability a “dead letter,” effectively overruling a long line of Supreme Court precedent applying that exception. Moreover, “to shift the patent-eligibility inquiry entirely to those [other] sections risks creating significantly greater legal uncertainty, while assuming those sections can do work that they are not equipped to do.”

The court also noted the views of several amici who argued that rejection of the patents before it would deny scientists financial incentives necessary to invest in the expensive process of diagnostic research. The court “hesitat[ed],” however, to depart from “established general legal rules lest a new protective rule that seems to suit the needs of one field produce unforeseen results in another.” Congress can “craft[] more finely tailored rules where necessary.”

The *Mayo* opinion undoubtedly puts more teeth into the “law of nature” exception, but it doesn’t mark out the limits of that doctrine’s bite. The Supreme Court makes clear that a mechanistic application of the machine-or-transformation test will not suffice for patentability when a claim appears to preempt an idea or law of nature. The opinion does not, however, offer concrete guidance to help determine when an application offers “practical assurance” that a claimed process is more than a “drafting effort” to “mono-polize” a law of nature, or when “additional steps” included in a claim go beyond “routine, conventional activity.”

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Copyright

Section 512(c) of the Digital Millennium Copyright Act (DMCA) provides Internet service providers (ISPs) with a safe harbor from copyright liability arising from the storage of copyrighted materials by users on a system or network controlled by the ISP. The immunity conferred by the safe harbor is not available, however, where the ISP has “actual knowledge” that the material on its system infringes a copyright. Entering an ongoing controversy over the boundaries of this safe harbor, in *Viacom International v. YouTube*, 2012 WL 1130851 (2d Cir. April 5, 2012), the U.S. Court of Appeals for the Second Circuit held that, to overcome an immunity claim, a plaintiff must show that the ISP had “actual knowledge or awareness of facts or circumstances that indicate specific and identifiable instances of infringement.” General awareness of possible infringement is insufficient.

Lightening the plaintiff’s burden, however, the Second Circuit also held that the common law doctrine of “willful blindness” may “be applied, in appropriate circumstances, to demonstrate knowledge or awareness of specific instances of infringement under the DMCA.” The *Viacom* action was filed by a group of copyright holders who alleged that YouTube was responsible for infringing material posted on the site by members of the public. Noting internal YouTube e-mails that appear to discuss infringing activity, the Second Circuit reversed dismissal of the action, holding that “a reasonable juror could conclude that YouTube had actual knowledge of specific infringing activity, or was at least aware of facts or circumstances from which infringing activity was apparent.”

Erickson v. Blake, 2012 WL 847327 (D. Or. March 14, 2012) addresses a unique copyright question—the scope of the protection afforded to a musical work derived from the digits of the mathematical constant pi. An artist who composed such a work by assigning musical qualities to the digits of the number brought suit against another artist who later posted a similarly derived composition on YouTube.

Plaintiff claimed that though the musical result of the process was different, his copyright was violated by the defendant’s use of the same technique. Dismissing the complaint, the district court found no infringement—the transcription of the numerical sequence to music is a non-copyrightable idea and the musical compositions themselves were not substantially similar because each work assigned different musical qualities to the digits.

Trademark

In *Rosetta Stone v. Google*, 2012 WL 1155143 (4th Cir. April 9, 2012), the U.S. Court of Appeals for the Fourth Circuit upheld a complaint alleging that use of Google’s “AdWords” advertising program had violated the Lanham Act. Under the AdWords program, advertisers can purchase the right to display advertisements when a Google user performs a search on a particular keyword. The language education company Rosetta Stone

sued Google alleging trademark infringement and dilution, claiming that counterfeiters had purchased its trademarks as AdWords, so that counterfeit products were advertised when Rosetta’s marks were used in Google searches.

Reversing dismissal of the complaint, the Fourth Circuit held that a reasonable jury could find a likelihood of consumer confusion and could find that Google had intended to cause confusion by selling marks as AdWords. Google’s argument that consumers can tell the difference between sponsored links purchased through AdWords and search results generated by Google raised questions of fact and was insufficient to negate the possibility of confusion. The Fourth Circuit also reversed the district court’s finding that Google’s use of Rosetta Stone’s marks was protected by the functionality doctrine. That doctrine did not apply because Rosetta Stone uses the mark as a “classic source identifier,” and not for a functional purpose.

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In *Louis Vuitton Malletier v. LY USA*, 2012 WL 1034900 (2d Cir. March 29, 2012), the Second Circuit, rejecting contrary holdings by the U.S. Court of Appeals for the Ninth Circuit and lower courts within its own circuit, held that Section 35(c) of the Lanham Act allows for recovery of attorney fees in exceptional cases. Section 35(c) provides for statutory damages upon a finding of infringement, while Section 35(a) provides for actual damages. The Second Circuit noted that Section 35(a) includes language expressly permitting fee awards in exceptional cases, while Section 35(c) does not. However, the Second Circuit found it to be “unlikely that Congress intended to prevent a plaintiff who opts to recover statutory damages from also recovering attorney’s fees.”

In *Skydive Arizona v. Quattrocchi*, 673 F.3d 1105 (9th Cir. March 12, 2012), the Ninth Circuit addressed the enhanced damages provision of Section 35(a). Defendants allegedly advertised skydiving services that they did not actually provide, selling unredeemable certificates for actual services. Plaintiff, a skydiving service whose name the defendants mentioned in their advertising, sued for trademark infringement and cybersquatting, among other claims. A jury awarded plaintiff \$3.5 million in actual damages, \$2.5 million in defendant’s profits and \$600,000 in statutory cybersquatting damages. The trial court doubled the actual damages to \$7 million under Section 35(a), based on the “purposefully deceitful nature” of defendant’s conduct. The Ninth Circuit reversed the increase in the actual damages award, holding that enhancement is available only to ensure that the trademark holder is adequately compensated, not to punish the infringer.

Ray Communications v. Clear Channel Communications, 673 F.3d 294 (4th Cir. March 8, 2012), considered the application of the affirmative defense of laches in trademark infringement actions. Plaintiff registered a mark in 1972 to identify an agriculture-related radio station. Starting only a few years later, Clear Channel and its predecessor networks began using the same mark for their own radio broadcasts. Plaintiff did not sue for infringement until 2008, long after it learned of Clear Channel’s use of the mark.

Reversing the district court’s summary judgment dismissing the action as barred by laches and remanding the case, the Fourth Circuit held that a laches defense must be measured from the time that the plaintiff became aware of a likelihood of confusion, not simply from the time plaintiff learned of the competing use. Thus, determining the proper period for laches requires a confusion inquiry, rather than simply noting the date on which the competing use began.

Patents

An applicant whose patent claims have been finally rejected by the Patent Trial and Appeal Board of the Patent and Trademark Office (PTO) may appeal that decision directly to the Federal Circuit, or instead sue in district court under section 145 of the Patent Act. Federal Circuit review is limited to the administrative record presented to the PTO, and the court must affirm the PTO’s findings unless they are “unsupported by substantial evidence.” A district court, on the other hand, may receive evidence not presented to the PTO, including oral testimony, which the PTO generally will not accept. In *Kappos v. Hyatt*, 132 S.Ct. 1690 (2012), the Supreme Court held that there are no “evidentiary restrictions” on an applicant’s presentation of new evidence in a section 145 proceeding, save those imposed by the Federal Rules of Evidence and Civil Procedure. It also held that a district court must make a de novo finding when new evidence is presented on a disputed factual question.

In appraising that evidence, however, the court may consider whether an applicant had the opportunity to present it to the PTO, and has “broad discretion over the weight to be given to evidence never heard by the agency. The Supreme Court dismissed the PTO’s argument that allowing a district court to consider new evidence would encourage applicants to withhold evidence during administrative proceedings. Doing so, the court determined, would “undermine[]” an applicant’s position before the PTO “on the speculative chance” that some advantage would be gained in the district court. Two concurring justices stated their view that a district court would have the authority to exclude evidence “deliberately suppressed” or “withheld in bad faith.”