

INTELLECTUAL PROPERTY LITIGATION

Expert Analysis

Business Methods, Fair Use, Patent Evidence, Lanham Act

Few topics in patent law provoke more controversy than the propriety of granting patents covering business methods. Some judges, lawyers and academics find it difficult to understand why patents that do not seem to claim scientific advancements should be eligible for patent protection. Two important Supreme Court opinions—*Bilski v. Kappos*, 561 U.S. 593 (2010) and the June 2014 decision in *Alice Corp. Pty. v. CLS Bank Int'l*, 134 S.Ct. 2347 (2014)—have invalidated business method patents, and the Supreme Court has instituted a test for patentable subject matter that few (if any) business method patents will meet. Applying that test, a growing number of trial and appellate courts, including several over the past few months, have dismissed infringement claims based on business method patents.

The test applied in *Alice* has two parts: first, the court determines whether the patent is directed to laws of nature, natural phenomena or abstract ideas. If so, the patent is valid only if “additional elements” in the claims supply an “inventive concept” that is “sufficient to ensure that the patent in practice amounts to significantly more



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than a patent upon the [ineligible concept] itself.” The Supreme Court has made the test more difficult for patent owners by holding that simply requiring that a computer be used, or limiting the claims to a particular “technological environment” will not save an otherwise invalid patent.

How clearly does this test mark the outer boundary of patentability? Called upon to apply it, Judge George Wu of the Central District of California, in *Eclipse IP v. McKinley Equipment Corp.*, 2014 WL 4407592 (C.D. Cal., Sept. 4, 2014), compared the test to Justice Potter Stewart’s famous phrase in an obscenity case, *Jacobellis v. State of Ohio*, 378 U.S. 184 (1964): “I know it when I see it.” Other judges have tried to add content to the test by focusing on its underlying rationale—to prevent a patent holder from “preempting” further research by monopolizing an abstract idea.

Even as courts have struggled to explain the test, they have confidently concluded that business method

patents don’t satisfy it. *BuySAFE v. Google*, 765 F.3d 1350 (Fed. Cir. 2014) invalidated a patent that described “a well-known, and widely understood concept—a third-party guarantee of a sales transaction—and then applied that concept using conventional computer technology and the Internet.” In *Amdocs (Israel) v. Openet Telecom*, 2014 WL 5430956 (E.D. Va., Oct. 24, 2014), the court wrote that a claim directed to a “method of organizing human activity” is “presumptively patent ineligible,” and found that patents covering a system for correlating accounting records over a network were invalid. *Cogent Medicine v. Elsevier*, 2014 WL 4966326 (N.D. Cal., Sept. 30, 2014) considered patents describing a searchable database of medical resources. The patents were invalid because they claimed “the abstract idea of maintaining and searching a library of information.”

A company called Every Penny Counts was able to convince the Patent Office to issue a patent on a “method of and a system of automated saving or automated charitable giving.” The inventions “rounded up” credit card purchases to the next whole dollar, withdrew the difference from a customer’s bank account and deposited it in an account for personal savings or charitable contributions. The court in *Every Penny Counts v. Wells Fargo Bank*, 2014 WL 4540319 (M.D. Fla., Sept. 11, 2014) invalidated the patent, finding it to be a “computerized application

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of a technique known from antiquity.”

The emphatic rejections in these cases do not rule out the patentability of business methods, and the Supreme Court in *Bilski* declined the invitation to rule that business methods cannot be patented. A sufficiently novel evaluation tool, marketing plan or pricing method may yet prove to be patentable, particularly if it is limited in order to avoid preempting a broad field of activity. But until courts begin to uphold such inventions, the patentability of business methods will remain uncertain.

Post-Invention Evidence

When can post-invention evidence demonstrate an invention is not obvious? Despite the urging of a large group of amici, the U.S. Court of Appeals for the Federal Circuit refused to consider en banc an action raising an issue of particular importance to the pharmaceutical industry: whether post-invention evidence can be considered in determining whether a patent claim is invalid because the claimed invention was obvious. In the case, *Bristol-Myers Squibb Co. v. Teva Pharms. USA*, 2014 WL 5352893 (Fed. Cir. Oct. 20, 2014), Bristol-Myers Squibb claimed infringement of its patents covering its hepatitis B drug (entecavir). A panel decision had affirmed a ruling that BMS’s patent claims were invalid for obviousness.

BMS scientists developed entecavir by modifying a known antiviral compound called 2’-CDG. The district court found, and the panel affirmed, that the choice of 2’-CDG as a lead compound and the modifications made to it would have been obvious to a skilled artisan at the time. BMS argued that 2’-CDG is so toxic that a medicinal chemist would not have considered it an appropriate lead compound. But the toxicity of 2’-CDG was not known when BMS’s scientists invented entecavir. BMS and its amici read the panel decision as imposing a per se bar against such post-invention evidence.

The issue is important to the pharmaceutical industry because a drug’s full

effects may not be known at the time of the invention, an issue likely to become more important under the first-to-file rules of the America Invents Act. Prior cases had held that the knowledge and motivation of a person of ordinary skill, the cornerstone of the obviousness inquiry, are measured as of the time of the invention, but had also permitted evidence of post-invention evidence to show characteristics possessed by the claimed invention and to demonstrate what a person of ordinary skill would have known or reasonably expected at the time of the invention.

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Although rehearing was denied, the Federal Circuit issued four opinions, two concurring in the denial of rehearing and two dissenting from the denial, all of which appear to agree that there is no per se bar against post-invention evidence. The two concurring opinions treat the panel’s opinion as a case-specific assessment of the sufficiency of the evidence. One dissenting opinion asserts that the panel’s decision conflicts with precedent, while the other expresses concern that the panel’s decision would be mis-cited by advocates, and wanted the full Federal Circuit to clarify exactly when post-invention evidence may be considered.

Trademark: Lanham Act

Can the flavor of eggplant parmesan acquire secondary meaning under trademark law? Can its arrangement on a plate?

A Texas federal district court said no as to flavor, but perhaps as to plating. *New York Pizzeria v. Syal*, 2014 WL 5343523 (S.D. Tex. Oct. 20, 2014). New York Pizzeria, Inc. (NYPI) sued competitors who had gone into business with a former NYPI vice president and franchi-

see. The central Lanham Act issue was whether the flavor of NYPI’s food and the plating of its dishes had acquired secondary meaning, so that patrons of defendants’ restaurants would mistakenly believe they were eating NYPI pizza, ziti or other dishes.

The court accepted that flavor can identify not just the product but its source, so that it can carry secondary meaning. But functional features of a product are not entitled to trade dress protection, and the “flavor of food undoubtedly affects its quality, and is therefore a functional element of the product.” The court rejected the flavor argument as “plainly half-baked,” but found the plating argument worthy of closer inspection.

In “rare circumstances,” well known, “signature” dishes could be plated in a manner that (a) is inherently distinctive or has acquired secondary meaning, (b) serves no functional purpose, and (c) could confuse consumers. Here, however, NYPI had pleaded no facts explaining how it plates its food, leaving defendants with “no idea what it is about the plating of ziti and chicken or eggplant parmesan that is distinctive.” The court dismissed the Lanham Act claims.

Patent: Fee Shifting

Infringement contentions—statements explaining precisely how each accused product is alleged to infringe each element of each asserted patent claim—are an increasingly popular feature of patent cases, required by the local rules in many federal courts and often agreed to by the parties elsewhere. Because infringement contentions often must be served early in the lawsuit, sometimes before discovery, patentees regularly include language stating that the contentions are preliminary and may be supplemented. That was the case in *AntiCancer v. Pfizer*, — F.3d —, 2014 WL 5314617 (Fed. Cir. Oct. 20, 2014), a case addressing gene-expression technology involving fluorescent-green jellyfish proteins.

AntiCancer served infringement

contentions five days after serving an amended complaint in which infringement allegations were first included, accompanied by claim charts and prior art. The defendants moved for summary judgment that the infringement contentions omitted several elements of the asserted claims. The district court agreed, and permitted AntiCancer to supplement only if it paid the defendants' attorney fees incurred in moving for summary judgment. AntiCancer objected to the imposition of fees, and the district court dismissed the case with prejudice.

The Federal Circuit declined to "intrude upon the district court's authority to require supplementation of the infringement contentions." But the Federal Circuit found that awarding attorney fees and granting summary judgment for failure to pay are sanctions, which under governing Ninth Circuit law may be awarded only on an explicit finding of bad faith. Because no such finding was made or supported by the record, the Federal Circuit vacated the orders imposing sanctions and dismissing the complaint and remanded for further proceedings, presumably including supplementation of the infringement contentions if the district court so requires.

Copyright

Activision's use of Manuel Noriega's likeness was transformative. Former Panamanian military leader Manuel Noriega sued in Superior Court in Los Angeles, alleging that Activision Blizzard, Inc. infringed his rights of publicity by including him as a character in "Call of Duty: Black Ops II," a hugely popular first-person-shooter video game. Granting Activision's motion to dismiss, the court found that "Noriega's right of publicity is outweighed by defendants' First Amendment right to free expression." *Noriega v. Activision/Blizzard*, BC 551747, Slip Op. at 3 (Cal. Sup. Ct., Los Angeles Oct. 27, 2014). Noriega relied on *No Doubt v. Activision Pub.*, 192 Cal. App. 4th 1018 (2011), in which the California Court of Appeal

affirmed the denial of a motion to strike publicity claims brought by the rock band No Doubt after Activision used licensed video and images of the band in the game *Band Hero*.

The Noriega court distinguished *No Doubt*, because in that case Activision took the licensed, literal reproduction of the band members' images and, with those images, allowed players to "be' the No Doubt rock stars," and Activision's use of lifelike depictions of the band members "encourages the band's sizeable fan base to purchase the game so as to perform as, or alongside, the members of No Doubt."

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Activision's use of Noriega's image was different: players cannot "assume the Noriega character's identity, control its movements or experience gameplay through its eyes" in "Call of Duty: Black Ops II." Rather, Noriega appears in only two of the game's 11 missions, he is one of more than 45 characters, "including other historical figures," and Activision does not use his likeness to market the game. The court found that Activision's use of Noriega's likeness was transformative, and dismissed the case with prejudice.

T-shirt with image of mayor of Madison, Wis., was fair use. In *Kienitz v. Scennie Nation*, 766 F.3d 756 (7th Cir. 2014), a Seventh Circuit panel took issue with the fair use analysis used in a landmark Second Circuit decision. For an annual block party in Madison, Wis., Scennie Nation LLC made T-shirts and tank tops with the image of Madison Mayor Paul Soglin's face on them, with the phrase "Sorry for Partying." Although Soglin had attended the party as a college student, as mayor he want-

ed to shut down the event.

To produce the apparel, Scennie Nation downloaded from the city's website a photo of Soglin taken by plaintiff Michael Kienitz. Scennie Nation changed the tonality of the image, colored Soglin's face lime green, removed much of the background, and surrounded Soglin's face with multi-colored writing.

The U.S. Court of Appeals for the Seventh Circuit criticized the Second Circuit's analysis of fair use in a landmark decision, *Cariou v. Prince*, 714 F.3d 694 (2d Cir. 2013). *Cariou* held that paintings by prominent appropriation artist Richard Prince, which incorporated large parts of photographs by photographer Patrick Cariou, were protected as fair use. In reaching that result, the Second Circuit focused most intently on whether Prince's work was "transformative"—whether the original work is "transformed in the creation of new information, new aesthetics, new insights and understandings."

In *Kienitz*, Judge Frank Easterbrook wrote, "We're skeptical of *Cariou's* approach, because asking exclusively whether something is 'transformative' not only replaces the list [of non-exclusive fair-use factors in 17 U.S.C.] §107 but could also override 17 U.S.C. §106(2), which protects derivative works. To say that a new use transforms the work is precisely to say that it is derivative and thus, one might suppose, protected under §106(2). *Cariou* and its predecessors in the Second Circuit do not explain how every 'transformative use' can be 'fair use' without extinguishing the author's rights under §106(2)."

Instead, the Seventh Circuit focused on the fourth §107 factor, "the effect of the use upon the potential market for or value of the copyrighted work," and found that "[a] t-shirt or tank top is no substitute for the original photograph" and that Kienitz had not accused the defendants of disrupting his own plan "to license this work for apparel."