

INTELLECTUAL PROPERTY LITIGATION

Expert Analysis

Rights of Patent Holders, Dolly the Sheep, Redskins, Aereo

The past two months have seen no fewer than six Supreme Court intellectual property decisions. Three of them are unanimous patent opinions issued in June that limit the rights or remedies of patent holders.

Perhaps the most significant of the three patent decisions is *Alice Corp. Pty. v. CLS Bank Int'l*, 2014 WL 2765283 (June 19, 2014), holding that business method patents claiming a computer-implemented scheme for mitigating settlement risk in financial transactions were not patent-eligible under §101 of the Patent Act. Applying the reasoning of *Mayo Collaborative Services v. Prometheus Laboratories*, 132 S.Ct. 1289 (2012), the CLS Bank court held that the patents covered a patent-ineligible abstract idea, and that the use of a generic computer to implement the method—a common technique used by patent drafters—did not transform that abstract idea into a patent-eligible invention. A concurrence by three Justices (Sonia Sotomayor, Stephen Breyer and Ruth Bader Ginsburg) went even farther, stating the often-expressed view that no business method claims should be patentable under §101.

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It has long been established that abstract ideas and laws of nature are not patentable. But a patentable invention may, of course, “embody, use, reflect, rest upon or apply laws of nature, natural phenomena or abstract ideas.” *Mayo* uses a two-part test to resolve that tension. First, the court determines whether the claims are “directed to” an abstract idea or law of nature. If so, the court examines additional elements of the claims, searching for an “‘inventive concept’—i.e. an element or combination of elements that is ‘sufficient to ensure that the patent in practice amounts to significantly more than a patent upon the [ineligible concept] itself.’”

Three Federal Circuit judges in the en banc court below had voted to uphold all of the claims at issue, but the unanimous Supreme Court had no difficulty concluding that the claims were barred under the *Mayo* test. The claims directed use of a third-party intermediary to reduce settlement risk, i.e. the risk that one party to a trade fails to satisfy its obligations. That concept, the Supreme Court found, is an abstract idea—“the concept of intermediated settlement is

‘a fundamental economic practice long prevalent in our system of commerce.’” And requiring use of a computer “does not alter the analysis at *Mayo* step two” because computer implementation does not supply the necessary inventive concept. “Wholly generic computer implementation” does not provide “practical assurance that the process is more than a drafting effort designed to monopolize the [abstract idea] itself.” Otherwise, “an applicant could claim any principle of the physical or social sciences by reciting a computer system configured to implement the relevant concept.”

The second decision, *Nautilus v. Biosig Instruments*, 134 S.Ct. 2120 (2014), rejected the Federal Circuit’s test for determining whether patent claims meet the definiteness requirement of section 112 of the Patent Act, which requires that the claims “particularly point[] out and distinctly claim[] the subject matter which the applicant regards as [the] invention.” The Federal Circuit had held that a claim is sufficient if it is “amenable to construction,” and the claims as construed are not “insolubly ambiguous.” That test, the Supreme Court found, “can breed lower court confusion” and lack the “precision” that the statute demands. “It cannot be sufficient that a court can ascribe some meaning to a patent’s claims; the definiteness inquiry trains on the understanding of a skilled artisan at the time of the patent application, not that of a

court viewing matters post hoc.”

The Supreme Court found that the Patent Act requires a “delicate balance”: While the statute mandates clarity in order to give the public clear notice of the bounds of a patent claim, section 112 must also take into account the “inherent limitation of language” and the fact that “absolute precision is unattainable.” In place of the Federal Circuit’s formulation, the Supreme Court determined that “a patent is invalid for indefiniteness if its claims, read in light of the specification delineating the patent, and the prosecution history, fail to inform, with reasonable certainty, those skilled in the art about the scope of the invention.” The new test is clearly more rigorous than the Federal Circuit rule. Whether it will engender less “lower court confusion” remains to be seen.

Third, *Limelight Networks v. Akamai Technologies*, 134 S.Ct. 2111 (2014), held that liability for induced infringement under §271(b) requires an act of direct infringement under §271(a) or another statutory provision. The Federal Circuit had concluded en banc that induced infringement of a method claim could be found where a defendant performed some of the required steps and encouraged others to perform the rest, even though no one was liable for direct infringement.

The Supreme Court reversed, reasoning that liability for inducement must be predicated on direct infringement, and that a method claim is not directly infringed unless all the steps are carried out by one person or a single party. The court noted that when Congress wished to impose inducement liability for activity that does not itself constitute direct infringement, it knew precisely how to do so. And the court worried that the Federal Circuit’s approach would require courts to develop two parallel bodies of infringement law for direct infringement and inducement.

Proponents of the Federal Circuit’s approach, on the other hand, believe that the Supreme Court’s holding encourages parties to evade infringe-

ment liability. The Supreme Court acknowledged the concern that “a would-be infringer” would evade liability “by dividing performance of a method patent’s steps with another whom the defendant neither directs nor controls.” But that concern, the court believed, does not justify endorsing “some free-floating concept of ‘infringement’ both untethered to the statutory text and difficult for the lower courts to apply consistently.”

None of these cases is revolutionary, but they continue a trend of Supreme Court opinions that have cut back patent claims and bolstered defenses to infringement claims.

The Nautilus decision rejected the Federal Circuit’s test for determining whether patent claims meet the definiteness requirement of section 112 of the Patent Act.

Patent

The famous Dolly the Sheep, the world’s first cloned mammal, is not patentable. So held the Federal Circuit in *In re Roslin Institute (Edinburgh)*, 750 F.3d 1333 (Fed. Cir. 2014), affirming the Patent Trial and Appeal Board’s finding that patent claims directed at cloned cattle, sheep, pigs, and goats produced from the same methods used to create Dolly did not cover patentable subject matter under Section 101 of the Patent Act. The Federal Circuit reasoned that cloned mammals are exact genetic replicas of their donor mammals and are not markedly different from farm animals found in nature. Thus, the clones are not eligible for patent protection, just as naturally occurring DNA strands are not patentable. This is true even though the cloning method used to create Dolly was a breakthrough in scientific discovery, and environmental differences lead to phenotypic differences between the clones and their donor mammals.

In *In re Nintendo of America*, 2014 WL 2889911 (Fed. Cir. June 25, 2014), the Federal Circuit granted an extraordinary writ of mandamus directing that patent infringement claims against manufacturer Nintendo proceed first in the Western District of Washington, ahead of similar claims against retailers of Nintendo products filed in the Eastern District of Texas. The Federal Circuit’s decision was grounded in the principles underlying the “customer-suit” exception to the “first-to-file” rule, under which a manufacturer’s suit for a declaration of noninfringement or invalidity takes precedence over a patent owner’s infringement suit against a manufacturer’s customer. The Federal Circuit noted that this rule exists to avoid imposing the burdens of trial on the customer, for it is the manufacturer who is generally the true defendant. Proceeding first against Nintendo was appropriate because Nintendo’s liability was a predicate to recovery against the retailers.

Trademark

Few, if any, actions of the Trademark Trial and Appeal Board have received more attention than *Blackhorse v. Pro Football, Inc.*, 2014 WL 2757516 (June 18, 2014), a 2-1 decision cancelling the registration of six trademarks relating to the word REDSKINS used by Washington, D.C.’s professional football team. The majority found that the trademarks violated Section 2(a) of the Lanham Act, 15 U.S.C. §1052(a), because they were disparaging to a “substantial composite” of Native Americans at the time of filing between 1967 and 1990. The majority relied heavily on a 1993 resolution condemning the word “Redskin” passed by the National Council of American Indians (NCAI) which it found represented approximately 30 percent of Native Americans and therefore constituted “strong evidence of the views of Native Americans.” It also noted “the near complete drop-off in usage of ‘redskins’ as a reference to Native Americans beginning in the 1960s.”

The dissenting judge found no reliable evidence establishing the number of Native Americans or tribes that had endorsed the 1993 resolution.

In *POM Wonderful v. Coca-Cola*, 134 S.Ct. 2228 (June 12, 2014), the Supreme Court found that a Lanham Act claim alleging that the labeling of a juice product was false and misleading was not precluded by the Federal Food, Drug and Cosmetic Act (FDCA). POM, which sells a pomegranate-blueberry juice blend, sued Coca-Cola under the Lanham Act, alleging that Coca-Cola was misleading consumers by marketing its cheaper, competing beverage as a pomegranate-blueberry juice blend, even though it only contained 0.3 percent pomegranate juice and 0.2 percent blueberry juice.

Reversing the U.S. Court of Appeals for the Ninth Circuit, the Supreme Court concluded that the Lanham Act and the FDCA are complementary, rather than inconsistent statutes, providing distinct mechanisms for protecting competitors (in the case of the Lanham Act) and consumers (under the FDCA). A contrary result, the court found, would have weakened “the policing of misleading food and beverage labels,” a result Congress likely did not intend.

Copyright

In a closely watched decision, the Supreme Court ruled 6-3 that Aereo, an Internet service that marketed itself as a cheaper alternative to cable television services, publicly performs copyrighted works in violation of the Transmit Clause of the Copyright Act. *American Broadcasting Cos. v. Aereo, f/k/a Bamboom Labs*, 2014 WL 2864485 (June 25, 2014). The Transmit Clause gives a copyright holder the exclusive right to “transmit or otherwise communicate a performance” of a copyrighted work to the public. Aereo captures over-the-air TV broadcasts using dime-sized antennas in a central warehouse and streams the broadcasts to its subscribers. Each subscriber is assigned a particular antenna

and views the stream from a specific file that copies the broadcast. Aereo argued, and the U.S. Court of Appeals for the Second Circuit agreed, that each stream is a private broadcast, unique to a particular viewer, so that no public performance occurred.

In ‘Nintendo,’ the Federal Circuit granted an extraordinary writ of mandamus directing that patent infringement claims against manufacturer Nintendo proceed first in the Western District of Washington, ahead of similar claims against retailers of Nintendo products filed in the Eastern District of Texas.

The Supreme Court reversed. The Transmit Clause was added to the Copyright Act in 1976 to overrule Supreme Court precedent holding that community antenna television (CATV) systems, the precursors of today’s cable systems, did not infringe copyright holders’ exclusive rights of public performance. Given Congress’ purpose in enacting the Transmit Clause and accompanying amendments to the Copyright Act—“to bring the activities of cable systems within the scope of the Copyright Act”—the Supreme Court found no meaningful difference between Aereo’s system and CATV providers. The court was careful, however, to limit its ruling to Aereo’s system, noting that it was not considering cloud computing, remote DVR storage or other technologies where users pay primarily for something other than the transmission of copyrighted works.

In dissent, Justice Antonin Scalia wrote that he shared the court’s “evident feeling that what Aereo is doing (or enabling to be done) to the Networks’ copyrighted programming ought not to be allowed,” but found that Aereo’s conduct was permitted by a “loophole” in the Copyright Act that should be

addressed by Congress and not the judiciary. In the wake of the court’s opinion, Aereo announced that it is suspending its service.

In *Petrella v. Metro-Goldwyn-Mayer*, 134 S.Ct. 1962 (May 19, 2014), the Supreme Court held that the doctrine of laches does not bar damages for copyright infringement that occurs within the three-year statute of limitations set by the Copyright Act. In 2009, Paula Petrella, owner of the copyright in a screenplay that allegedly was the basis for the critically acclaimed 1980 movie *Raging Bull*, sued MGM for copyright infringement, seeking a monetary award based on MGM’s profits beginning three years before suit was brought and an injunction against future infringement. The Ninth Circuit affirmed dismissal of the suit on the basis of laches, finding that MGM had made a large investment believing it had complete ownership of the film, and was therefore prejudiced by Petrella’s delay.

A six-member majority of the Supreme Court held that laches, an equitable doctrine, cannot bar legal relief permitted by the Copyright Act’s express statute of limitations. The copyright statute of limitations, which provides that profits made more than three years before suit is filed “remain the defendant’s to keep,” itself “takes account” of a plaintiff’s delay. The court found, however, that laches may bar or limit a claim for injunctive relief or an award of defendant’s profits.

Significantly, the Petrella ruling may not apply to trademark and patent cases. The Supreme Court pointed out that, “in contrast to the Copyright Act,” the Lanham Act has no statute of limitations and provides for the application of “equitable principles, including laches.” The court also noted that the Patent Act prescribes a statute of limitations and that the Federal Circuit has held that laches can bar damages but not injunctive relief, a ruling the Supreme Court has not reviewed.