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Supreme Court/Intellectual Property

First Monday in October Promises Start Of Action for IP Cases Before High Court

With the start of the new term for the U.S. Supreme Court, the intellectual property law community is promised substantive dealings at the highest court in the land.

Two cases are already set for oral argument within the next few weeks, and one IP law expert told BNA that there are issues bubbling up through federal appeals courts that might soon draw the Supreme Court's attention.

Mark Scarsi, an intellectual property lawyer with Milbank, Tweed, Hadley & McCloy, Los Angeles, also told BNA that the presence of a new member of the Supreme Court is likely to bring more of the court's attention to IP issues.

Scarsi noted that Justice Sonia M. Sotomayor, whose nomination was confirmed by the U.S. Senate in August, has a trademark litigation practice background.

"She may be the judge at the Supreme Court that is most familiar with the intangible nature of intellectual property," Scarsi said. "The trademark world is all about the intangible benefits of intellectual property. She may be the most recent addition to the court with some real civil litigation experience in the intellectual property area. She may be a guiding light to the court here."

Sotomayor's background is likely to mean that she will not hesitate in wanting to address complex IP questions, Scarsi said, and that will probably be a good thing for the IP community.

"I think the IP community would obviously favor this direct intellectual property experience," Scarsi said. Referring to the upcoming argument in *Bilski v. Kappos*, he said, "The issue is always that the court doesn't seem to understand that tying patent rights to physical transformation is too limiting because intellectual property rights are more often linked to intangible innovations."

Oral Arguments Coming Up. First on the docket is the Oct. 7. oral argument in *Reed Elsevier Inc. v. Muchnick*, No. 08-103 (U.S., to be argued Oct. 7, 2009). In that case, the court will address whether copyright registration is a condition precedent to subject matter jurisdiction in a copyright infringement action.

Scheduled for Nov. 9 is argument in *Bilski v. Kappos*, No. 08-964 (U.S., to be argued Nov. 9, 2009), in which the court will evaluate a test created by the Federal Circuit to determine whether a claimed business method is patentable.

***Bilski*: One of the Most Important Cases in a Long Time.** The *Bilski* case will review a test created by the U.S. Court of Appeals for the Federal Circuit—the "machine-or-transformation" test—for evaluating the patentability of business methods. Patenting of business methods has been controversial not just in the patent community but in society at large, with public outcries resulting from publicity of patents such as Amazon.com Inc.'s patent on "one-click" purchasing online.

In *Bilski*, the patent application related to a process for hedging risks in financial markets, specifically a method of managing the consumption risk costs of a commodity sold at a fixed price. The Federal Circuit, sitting en banc, stated that "A claimed process is surely patent-eligible under [35 U.S.C.] § 101 if: (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing." *In re Bilski*, 454 F.3d 943, 88 USPQ2d 1385 (Fed. Cir. 2008) (en banc) (77 PTCJ 4, 11/7/08).

U.S. Solicitor General Elena Kagan filed a brief with the Supreme Court expressing support for the Federal Circuit's test, but the Supreme Court granted a writ of certiorari in this case despite opposition from the solicitor general.

Kagan's brief emphasized that *Bilski* "did not hold that business methods are categorically ineligible for patent protection."

Scarsi told BNA that “The *Bilski* decision might be one of the most important patent decisions the Supreme Court has tackled in a long time. . . . In the past, the Supreme Court has looked at things like obviousness and the doctrine of equivalence,” but this is “the first step in the patent system.”

“I’ve seen people coming out saying that the Federal Circuit’s test is wrong because it’s a rigid test [and that it] should be more of a flexible test or that the test should really be more concerned with inventive contribution,” Scarsi said. “There are all sorts of ways to structure it, but the test ought to really look at ‘did someone really invent something rather than just recognize something?’ ”

Reed Elsevier Is ‘Hornet’s Nest.’ *Reed Elsevier* has its origins in the Supreme Court’s 2001 *Tasini* decision, which said that freelance authors had a right to negotiate separate licenses when their works were incorporated into online databases.

Prior to 2001, freelance authors had brought three putative class actions against publishers, alleging that the republications of their works in electronic form without a separate license infringed their rights. The lawsuits were suspended pending Supreme Court action on the issue. In 2002, the Supreme Court ruled that the revision privilege held by publishers of collective works under 17 U.S.C. § 201(c) does not cover the republication of freelance authors’ articles in electronic databases. *New York Times Co. v. Tasini*, 533 U.S. 483, 59 USPQ2d 1001 (2001) (62 PTCJ 186, 6/29/01).

In the consolidated, reactivated action, a group of freelance authors and journalists sued several large publishing companies and database operators, alleging that their original freelance contracts did not authorize the publishers to reproduce their works electronically, and thus that such electronic reproduction constituted copyright infringement.

The freelance authors sought certification for a class action. In 2005, following lengthy negotiations and mediation, the freelancers and publishers reached a settlement (69 PTCJ 592, 4/8/05).

However, a group of authors whose works were registered after 2002 or never registered objected to the terms of the settlement, which offered them less money than was offered to other members of the class. Judge George B. Daniels of the U.S. District Court for the Southern District of New York certified the class and approved the settlement.

But the Second Circuit ruled that the district court did not have jurisdiction to approve a settlement that included unregistered works because in copyright cases registration was a jurisdictional question. *In re Literary Works in Electronic Databases Copyright Litigation*, 509 F.3d 116, 85 USPQ2d 1217 (2d Cir. 2007) (75 PTCJ 132, 12/7/07). Given that none of the parties to the litigation want the matter thrown out on a jurisdiction question, the Supreme Court has appointed Deborah Jones Merritt, a law professor at Ohio State University, Columbus, Ohio, to argue in support of the Second Circuit’s ruling.

In Scarsi’s words, this case is “an interesting hornet’s nest of a case” because “if the court can’t settle these big copyright disputes because of the registration issue, it will be hard the next time this happens for folks to move forward.”

“The registration requirement is sort of an odd duck,” Scarsi said, especially since under the Berne Convention, registration is no longer needed in order for an author to get rights under copyright law. “It’s one of the vestiges of the old copyright system.”

If a court can’t get jurisdiction in such situations, he said, “You’ll almost never be able to have these big class action settlements. How do you deal with the situation in a way that’s fair to everybody? It’s almost like the [appellate] court has used this registration requirement to stop things in their tracks.”

The situation “almost serves as a disincentive to register,” Scarsi said.

The issues in this case seem remarkably similar to the issues brewing in the Google Book Search matter, Scarsi noted. In that case, a group of authors and a group of publishers have crafted a wide-reaching settlement that would allow Google Inc. to scan any book for full-text searching and license other uses to Google. The parties have put off a final hearing on the fairness of the proposed settlement in the face of criticism, especially with regard to its treatment of orphan works and foreign works (see related article). *Authors Guild v. Google Inc.*, No. 5-civ-8136 (S.D.N.Y., hearing postponed Sept. 24, 2009).

Other Cases With Potential for Cert. Scarsi thought it would be possible for the Supreme Court to take up two additional patent cases within the next year.

First, he said that the Mayo Clinic is likely to file a petition for writ of certiorari to contest the Federal Circuit’s recent decision in *Prometheus Laboratories Inc. v. Mayo Collaborative Services*, No. 2008-1403 (Fed. Cir. Sept. 16, 2009) (78 PTCJ 635, 9/25/09).

In that case, the appellate court held that Section 101 of the Patent Act, on subject matter patentability, did not bar Prometheus’s patent on a diagnostic test featuring correlation of a metabolite level to a “warning” to increase or decrease drug dosage. *Bilski* will allow the Supreme Court to address business methods, Scarsi said, and *Prometheus* will allow the justices to address the biotechnology side. He further said that if the petition is filed before *Bilski* is argued, the court may well have a reason to make a narrower ruling in *Bilski*.

Second, Scarsi said that the court may hear the *Tafas* case after the Federal Circuit rules on the case en banc. The Federal Circuit vacated a panel’s split decision that the Patent and Trademark Office had authority to establish rules setting limits on patent application claims and continuations. *Tafas v. Kappos*, No. 2008-1352 (Fed. Cir. en banc hearing granted July 6, 2009) (78 PTCJ 278, 7/10/09). Many believe the en banc court will overturn that decision.

But that presents a problem for a patent community seeking changes in the patent system, Scarsi said, in that “it is almost impossible to get meaningful change” from Congress, which has shown an inability to “get patent reform over the line.” It does not look like Congress will succeed this year, either, he said, as health care and the economic crisis have taken priority over patent reform issues.

Without that option for change, “the PTO needs to have the ability to be more flexible,” Scarsi said, and the Supreme Court may grant certiorari to address, at least, the agency’s rulemaking authority.

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