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Trademarks as Keywords in Internet Searches: What Brand Owners Can Do to Protect Their Rights

Google AdWords is Google's main advertising product. According to some sources, Google generated advertising revenues totaling US$42.5 billion in 2012. AdWords works by matching paid advertisements with specific “keywords” or search terms entered into Google’s search engine by users. For instance, if a user searches for the term “auto mechanic,” AdWords causes advertisements for local mechanics to appear next to or above the Google search results. Google earns revenue based on the number of “clicks” and/or views these advertisements receive. Users who click on the advertisements are directed to the advertiser’s website.

With a few limited exceptions, Google allows customers that purchase advertising through AdWords to select any keyword to associate with the customers’ advertisements. In 2004 Google began allowing customers to select the trademarks of their competitors as keywords. Sticking with the auto mechanic example, this meant that ABC Mechanic could purchase its competitors name, say “XYZ Mechanic,” so that any time a user searched for “XYZ Mechanic,” an advertisement for ABC Mechanic would appear at the top or next to the Google search results.

This practice created a hot controversy as companies became increasingly concerned that they were losing the business of customers drawn away by competitors’ use of their brands in the AdWords program. Google faced numerous lawsuits over AdWords, with claims ranging from trademark infringement to fraud. Recently, the most prominent of these lawsuits, *Rosetta Stone Ltd. v. Google, Inc.*, settled out of court. With this case ending by settlement, *Rosetta Stone* did not result in any significant changes to applicable trademark law. While a district court opinion was a victory for Google, the Fourth Circuit later reversed on several key points without providing any meaningful guidance to others aggrieved by Google selling the use of their brands as search terms.

Without much legal precedent, as a matter of US trademark law, the use of third-party trademarks as search keywords is still legally ambiguous. In an apparent effort to avoid future liability, Google has put into place certain restrictions regarding the use of trademarks in the actual AdWords *advertisements* that are displayed with the search results. Its policy permits trademarks to be used (1) in a descriptive or generic manner, known as Descriptive Fair Use; (2) where the use is nominative, known as Nominative Fair Use; (3) where the advertiser is authorized to sell products under that trademark; or (4) where the advertiser does not sell products that compete directly with products sold under that trademark. As of now, however, Google does *not* place any restrictions on the use of trademarks *as* *keywords* for Internet searches performed through Google.

Descriptive Fair Use is the use of a third-party's trademark that is *descriptive of* and used fairly to describe *one's own* goods or services. This can either involve using a third-party mark without intending to refer to that third-party's products or using a third-party mark to describe one's own products. For example, an advertiser could use the term “Alaskan” to advertise jackets that were "Alaskan-made" and would not be liable for infringing the Alaskan Airlines' trademark of “ALASKAN.”

Nominative fair use, on the other hand, is where the advertiser specifically refers to another person's goods or services to describe one's own product. For example, a juice company might make the claim that its product is “sweeter than SNAPPLE” without being liable for infringing the SNAPPLE trademark. Similarly, an independent auto repair shop might say that it specializes in repairing BMW automobiles.

Outside of these limited exceptions, if a competitor (or any advertiser for that matter) purchases a third-party trademark as a search keyword in order to attract attention intended for the owner of that trademark, and the purchased trademark has no relation to the contents on the site, or falsely implies sponsorship, the use of that trademark as a keyword *may* be actionable. Trademark owners in this situation may assert claims for trademark infringement, trademark dilution, false advertising and unfair competition.

To make a trademark infringement claim, there must be (1) use of the trademark in commerce and (2) a likelihood of confusion. Most trademark-keyword claims are based on “initial interest confusion,” which is not recognized in all American jurisdictions. This means that, although the consumer is not confused as to the source of the product when he or she ultimately makes a purchase, the trademark owner suffers because the consumer was initially confused and contemplated, or actually did, purchase a different brand-owner's product as a result of that initial confusion. Courts will consider other factors such as the brand owner's context surrounding the sponsored link and the contents of the linked page, when determining whether a likelihood of confusion exists.

As of yet, there is little guidance one way or the other that the mere use of a trademark as a keyword, without more, constitutes trademark infringement or dilution. Until and unless there is strong court precedent holding that the use of a third-party's trademark as a keyword constitutes trademark infringement, the practice is likely to continue. For now, brand owners can seek to halt use of their own brands as keywords by competitors, and remain aware of this issue in managing their overall web presence.

By Derek R. Lowrey, Caroline H. Mead & Elizabeth A. Seals

Crowdsourcing – How to Cope with the Legal Risks

It is more than just a trend: companies doing business around the world have discovered crowdsourcing as a modern, cost saving and fast way to outsource tasks by using the creativity and talent of a crowd, such as their customers or other people interested in presenting their ideas. It might also be a good chance for young, talented freelance creatives to get in touch directly with the company that has launched an open call.

While outsourcing work to a crowd can be an efficient way to achieve high quality results, there are potential commercial and legal risks – for example, the use of crowdsourcing may give a company's competitors insight into future product development. Also, crowdsourcing may create extra work for those company employees tasked with evaluating the responses in case of a high number of submissions. Perhaps most importantly, however, there may be questions over who owns the rights to the resulting intellectual property (IP)– especially copyrights, patents and trademarks – that the business will want to exploit.

Copyright Law is an Issue

Anyone interested in crowdsourcing creative designs such as logos, a tune or a computer game must carefully consider copyright laws. Copyright originally vests in the person who creates the work. It is that person, the author, who has the right to exploit, reproduce, distribute and show the work. Under German law, for example, an author cannot transfer copyrights as such, but can – by way of an explicit or implicit agreement – grant (exclusive or non-exclusive) rights to exploit a copyright.

It is also worth noting that co-ownership of copyright may come about where the work is produced by joint authors, which can easily occur in crowdsourcing scenarios. The right of publication and distribution of a jointly produced work belongs jointly to the co-authors. A licensee must, therefore, obtain permission from all co-authors and alterations of the work are permissible only with the consent of all co-authors.

In Germany, rights in a copyright can be assigned without any form (e.g., even orally) as there is no register for copyright transactions. This means that any assignee of a copyright takes the risk that there are prior assignments of which he is unaware. If there is a prior assignment, his only recourse may well be claims for damages against his assignor.

License Contracts are Essential

These complications of crowdsourcing a creative work may result in the crowdsourcing company not having any rights in a given work – or even infringing the rights of a third party from which a contributor may have stolen his or her contribution. (How would you know whether the entire work product offered by way of a crowdsourcing project is original?)

It is, therefore, essential for crowdsourcers to enter into appropriate contracts with the contributors of their crowdsourcing projects. This is particularly important as the US work-for-hire principle will probably not apply in Germany. Where a given work is a "work for hire," the rights of anything created by a person hired to do so or by an employee will vest in the company. Work-for-hire rights exist only to a very limited extent in Germany, for example, with regard to the neighboring rights of producers, i.e,. rights that are not actually conferred by existing copyright law as they do not belong to the author, but "neighbor" those rights. Consequently, companies should not only include appropriate warranties and indemnities as to third party rights in their contracts with contributors to a crowdsourcing project, but also comprehensive licensing provisions that clearly define, for example, the extent and purpose of usage and the right to register IP rights.

Consumer Protection Laws Restrict Contract Terms

When drafting licensing contracts with "the crowd", crowdsourcers are not exactly free to craft the terms as broadly as they might like. As such contracts will have to be concluded with a large number of contributors on a standard basis (likely in the form of electronic click-through agreements over the Internet), consumer protection laws, such as the German law on Standard Terms and Conditions (TC), may apply, imposing quite significant restrictions on what terms can be agreed. Contracts that infringe these provisions may be null and void.

A Comprehensive Buy-Out May be Void Under German TC Law

As a matter of German law it is, therefore, important to balance adequately the interests of the crowdsourcing company and the crowd so that the solution implemented is not too onerous on the crowd and can, indeed, be enforced. Contracts, for example, that require each member of the crowd who provides a response to grant an exclusive, irrevocable, perpetual license to use any IP included in the response without any further payment would – while eliminating the risk of infringement claims from the crowd – likely be found unfair and, thus, void and unenforceable.

Mandatory Rights: Bestseller Provision

Moreover, there may be mandatory rights of contributors that – even with the best possible contract – cannot be completely ruled out. Under German copyright law, for instance, the author has a claim to a higher remuneration than that to which he had agreed in the licensing contract if the stipulated consideration is grossly disproportionate to the income received by the licensee from the utilization of the work. Based on this so called "bestseller provision", there can arise considerable claims for compensation where, for example, a contributor to a crowdsourcing campaign introduces a tune that becomes an economically successful advertising jingle or a design that becomes a company's well known trademark.

How to Protect Yourself as a Company?

In order to effectively cope with the IP-related risks of crowdsourcing, businesses should be mindful of the applicable law. A well-considered approach with the right paperwork in place increases the chance to enjoy the benefits of crowdsourcing with as little legal exposure as possible. This can be best achieved by using valid contributor agreements with well-balanced license as well as indemnity and warranty provisions.

By Dr. Annette Demmel & Matei Ujica

A Copyright Victory for Consumers and Resellers

In the recent decision in *Kirtsaeng v. John Wiley & Sons, Inc.,* the US Supreme Court ruled, with respect to non-pirated works lawfully made and sold outside the US, that the copyright "first sale" doctrine trumps the copyright importation restriction.

The first sale doctrine, in essence, constitutes an exception to the exclusive right of the copyright owner to distribute copies of the copyrighted work. The doctrine provides that after the first sale of a lawfully made copy, anyone who is the owner of that copy can sell or dispose of it in any way without permission of the copyright owner and without copyright infringement liability. The importation restriction provides that the importation of a copyrighted work obtained outside the US infringes the copyright owner's exclusive distribution rights. The inherent tension between the two is clear: Can a copyright owner invoke the importation restriction to prevent the importation into the US of copies of a copyrighted work that were lawfully made and sold outside the US and, therefore, appear to fall within the scope of the protection afforded by the first sale doctrine? More simply, does the first sale doctrine apply to copies of copyrighted works that are lawfully made and sold abroad?

The factual background to the *Kirtsaeng* decision was straightforward: Supap Kirtsaeng, a Thai student, purchased authorized versions of textbooks in Thailand and sold them on eBay to students in the US at a higher price than he had paid. In the process, US students benefited from a lower price than they would have otherwise paid for US editions of the same textbooks. And Supap Kirtsaeng, due to significant price differentials, made a handsome profit. John Wiley & Sons, the publisher of the textbooks and US copyright owner, was not pleased and sued for copyright infringement. John Wiley argued that the application of the first sale doctrine should be limited to works made in the US, thereby allowing it to establish effective and enforceable global market segregation and price differentiation strategies. After losing before the trial court and the Second Circuit Court of Appeals, Supap Kirtsaeng appealed to the Supreme Court, arguing that his importation business was protected by the first sale doctrine, which should be interpreted as applying to any authorized first sale, without geographical limitations and regardless of where the copies were first made and sold.

In an opinion handed down by Justice Steven Breyer, the Supreme Court sided six to three with Supap Kirtsaeng and overturned the lower court’s ruling. Relying on the plain language and legislative history of the first sale doctrine statutory provision, the Court held that there was no basis to impose a US-based geographic limitation on its application. Additionally, Justice Breyer was clearly persuaded by arguments in amicus briefs that Wiley’s narrow interpretation of the first sale doctrine would have "intolerable consequences" on US libraries, used-book dealers, retailers, museums and tech companies that have historically circulated and sold works lawfully made and purchased abroad. Justice Breyer also expressed significant concern at the possibility that a narrow interpretation of the first sale doctrine could result in copyright infringement liability for the importation into the US of foreign-manufactured cars with embedded copyrighted software developed and owned by a US company.

The decision in *Kirtsaeng* is an important victory for consumers, for Internet resellers such as eBay and Amazon that facilitate digital commerce and the sale of consumer goods across national borders, and, indeed, for any company that seeks to import and sell in the US unlicensed copies of works, which could include unexpected products such as cars, mobile phones, computers and numerous other products with embedded software. It is even possible that US copyright owners will now have less incentive to engage in manufacturing abroad – a potentially positive result for some, albeit not one that appears to have played a critical role in the majority opinion.

But what about the rights of content producers? Where does the decision in *Kirtsaeng* now leave them? The dissenters in *Kirtsaeng* (Justices Ruth Ginsburg, Antonin Scalia and Anthony Kennedy) ascribed significant importance to the ability of US copyright owners, who make and sell goods abroad, to set international prices – an ability, they argued, that would be severely "undermined if arbitrageurs are permitted to import copies from low-price regions and sell them in high-price regions." Clearly, such copyright owners will now face greater challenges in establishing and enforcing global price differentiation strategies. Unable to rely on their exclusive distribution rights and the closely linked importation restriction, their best bet may be to attempt to sidestep the now clearly expansive reach of the first sale doctrine by relying on specific contractual terms and licensing models.

The most likely outcome of the decision in *Kirtsaeng*, however, is a push by content providers to shift the battle to Congress and lobby for legislation that protects their ability to maintain effective market segmentation and global price differentiation schemes through a change in the Copyright Act that clearly prohibits unauthorized importations of copyrighted works. It seems doubtful, then, that *Kirstaeng* will prove the last word on an issue that can only gain in significance with the ongoing development of a global marketplace still built around individual countries of differing economic strength.

By Ivan Rothman

Loose Tweets Sink Social Media and Corporate Compliance in Australia

Social media is the current 'in thing' for Australian business – all the cool kids are doing it. It is a cutting edge way for businesses to engage with their Australian customers and the bottom line is: if you are not doing it, you are probably being left behind.

However, just like every other "latest craze", social media brings with it a few legal risks.

To be fair, social media is certainly not the hotbed of dangers that some commentators make it out to be. Those without much social media experience can sometimes get caught up in a fear of the unknown frontier. The real and present risk is, in fact, that those people end up avoiding the use of social media entirely and their businesses do fall behind their competitors as a result.

The core concept that businesses must come to terms with is that social media is no different in the eyes of the law than any other communications channel. If you post something on your company's Twitter feed, Instagram profile or Facebook page, it is treated no differently than if you were to send out a press release or a marketing brochure, run a television advertisement or put up a billboard. Social media is simply another way to get your message out there and the law applies just as it would for anything else.

Given recent decisions by the courts, industry bodies and regulators, there are three key issues that businesses in Australia should consider when deciding whether, and how, to utilize social media. These are:

- compliance with the Australian Consumer Law;
- compliance with Australian advertising standards; and
- compliance with ASX Listing Rules (where applicable) and the Corporations Act.

While obviously there are many other legal issues that can arise depending on circumstances, these three issues are particularly pertinent for Australian businesses thinking about embarking on the new social media frontier.

Compliance with the Australian Consumer Law

The easiest trap for social media users to fall into with the Australian Consumer Law is a breach of the misleading and deceptive conduct provisions in section 18 of Schedule 2 of the *Competition and Consumer Act 2010* (Cth).

What businesses say on social media platforms can be relied upon by consumers. Courts acknowledge and accept that while consumers approach social media a little differently to "official" communications in marketing materials or on billboards, social media allows businesses to link to more detailed information that cannot usually be done in a 30 second television commercial. Ultimately, the courts have found that consumers will place weight and rely on an official Twitter account or Facebook page, and presumably other social media channels, in the same way as they might rely on what is written in traditional marketing materials.

The *Seafolly Pty Ltd v Madden*[1] case is the latest example of how comments on social media can fall foul of the Australian Consumer Law. In that case, a designer, Leah Madden, accused well-known designer brand Seafolly of copying her designs for swimwear.

Ms. Madden posted several photos of Seafolly products on her personal Facebook page, with the title and caption "the most sincere form of flattery?" Her Facebook page had 518 friends.

The comments Ms. Madden posted included:

"Seriously, almost an entire line-line ripoff of my Shipwrecked collection."

"I know, the buyer from "sunburn" (who, as it turns out, works for seafolly) Came to my suite at RAFW and photographed every one of these styles."

"Ripping off is always going to happen, but sending in a dummy "buyer" to get photos is super sneaky!"

Naturally, Seafolly contested the allegations, and commenced proceedings in the federal court alleging, amongst other things, that Ms. Madden had engaged in misleading and deceptive conduct. The court found in favor of Seafolly on this point and awarded the company AU$25,000 in damages, plus costs.

The *Seafolly* case highlights how a business can get into trouble by using social media channels to make comments that they would not ordinarily include in a media release, brochure or on a billboard. The issue with social media is not that your business is more likely to get into "trouble" for what is said, but rather that it is much easier to make comments that will invite trouble, because many businesses do not have the same structures and review processes in place that they do for more formal or traditional advertising methods. The speed at which a communication can be made and circulated on social media can also lead to hasty decisions that might otherwise not have been made if the author had more time to consider their message.

Compliance with Advertising Standards

The Advertising Standards Board (ASB) recently handed down a well-publicized decision deeming official Facebook pages and other official social media accounts to be advertising. This decision brought social media channels within the scope of the ASB's review, and under the guidance of the advertising standards and codes.

The ASB's decision related to Smirnoff's Facebook page and a complaint regarding supposedly sexist, racist and obscene content that appeared on that page. The complaint alleged that Smirnoff's Facebook page breached several advertising codes, rules and regulations by hosting, and encouraging users to post content that: was sexual and obscene, encouraged under-age drinking and overconsumption of alcohol, and vilified ethnic minorities and women.

Fortunately for Smirnoff, the ASB considered that none of the content breached any applicable rules or regulations, finding that many of the photos simply had pictures of people with drinks in their hands and this did not breach any rules. In the words of the ASB: "the people in the images appear to be confident and in control, and no images of people appeared to indicate an excessive consumption of alcohol". Photographs and videos of young women drinking did not vilify those women, and pictures of empty bottles did not encourage overconsumption of alcohol. None of the content was contrary to prevailing community standards on health and safety.

So if Smirnoff did nothing wrong, why is the decision so important?

The decision is important because the ASB found that Facebook pages are advertisements.

[1] [2012] FCA 1346.

If they are advertisements, they need to comply with certain codes and community standards, the same as if they were on TV, radio or some other medium; this includes comments by users and "fans" of the Facebook page.

Whereas Facebook pages were previously thought of as customer relations tools, they now need to be thought of as advertising media. Where common sense might suggest that users are responsible for their own conduct online, the advertiser is now responsible for moderating and censoring the comments, photos and links posted by users of their official page.

In Smirnoff's case, almost all of the content was posted by Smirnoff, which gave them a great deal of control. But for many other businesses, this may mean hiring a new team of people just to monitor comments on various social media sites for appropriateness.

The important thing to take away is that a social media page, post or tweet is now an advertisement, not simply another tool in a company's customer relations toolbox, and companies need to make sure all of the content on their page complies with the usual advertising rules and regulations.

Compliance with the ASX Listing Rules and Corporations Act

Management of companies also needs to consider how conversations in the social media space intersect with ongoing obligations imposed by the Corporations Act and ASX Listing Rules.

Social Media Monitoring

As businesses grow and their operations expand, so too do the risks associated with social media. For businesses that are listed on the ASX, it is not only what they might say on social media that poses risks, it is also what is being said about them.

Recently the ASX released guidelines regarding how listed companies should interact with social media channels. The ASX suggests that certain companies should consider monitoring social media channels for discussions about them, not for the typical reasons a company might monitor social media channels (such as for branding or public relations purposes), but rather, to be aware of what information the market is trading on.

Listed companies would already be aware that ASX Listing Rule 3.1B requires companies to provide information upon request by the ASX where, in the ASX's opinion, there is or is likely to be a false market in the company's securities. In its roadshow to discuss its recent changes to the ASX Listing Rules, the ASX emphasized that where it makes a request of a company to provide specific information, the company must provide *that specific information*, rather than that information the company considers necessary to address any false market.

Therefore, in order to avoid a request under Listing Rule 3.1B, that is, a request that might require a company to release information that it would otherwise choose to withhold under an exception provided by Listing Rule 3.1A, listed companies should monitor those discussions and rumors that can lead to false markets, and be ready to pro-actively respond to any speculation with that information the company considers necessary, rather than waiting for the ASX to require a response providing information that the company would rather not disclose.

As the use of social media grows, the many ways in which a false market might develop grows as well. Companies must therefore be aware of the new communication channels evolving within the social media landscape and, depending on the size and scale of each company, have appropriate processes in place to monitor those channels.

An example of external communications affecting a company's share price occurred as recently as 2012, when Whitehaven Coal Limited (Whitehaven) was required to respond to fraudulent media releases indicating that Whitehaven had defaulted on its loan facility due to environmental issues associated with its Maules Creek project. The false media release immediately spooked investors, with Whitehaven dropping 6% (wiping out approximately AU$300 million of value) before a trading halt was put in place.

Whitehaven, along with the relevant bank, later confirmed that the media release was a hoax, and trading in Whitehaven shares subsequently recovered. The incident, however, provides another reminder that the speed and manner in which a listed company responds to media and market information can have very real consequences for its investors.

Cost of Compliance

In its recent guidance, the ASX has clarified that "social media channels" includes the bigger channels such as Twitter, Facebook, LinkedIn, etc. – but also channels that might have a much smaller audience but which relate particularly to certain listed companies, such as investor blogs or even "shareholder action" blogs, which might only have an audience of, say, a small group of 20 very passionate investors.

Obviously not all listed companies have the same resources to devote to monitoring such social media channels. Further, not all listed companies will warrant the same level of interest or discussion, and so clearly the level of risk social media presents will vary from company to company.

While very large listed companies might employ teams of people responsible for managing and monitoring their company's presence on social media, smaller companies might not be able to sustain that level of ongoing surveillance. The ASX Guidelines implicitly recognize this reality, noting that the most important times for companies to monitor social media channels will be in the lead up to a market announcement being released, or when a market sensitive transaction is withheld from the market due to an exception provided by Listing Rule 3.1A.

Even though monitoring of social media channels during these windows might still result in significant costs for smaller listed companies, the ASX considers that those costs are necessary given the serious effect the social media rumor-mill can have on the market.

Employees' Posts

Companies should also implement strong internal policies and educational programs to make their employees aware of the powerful impact social media can have on their employer's performance in the market.

Consider a junior geologist for an ASX-listed exploration company with assets in a Sub-Saharan developing country. A week after posting a status update, grumbling about having to go "overseas for work", the geologist posts a much happier update, bragging about "some interesting results that might just pay for my next holiday". The social media rumor-mill may easily put two and two together to churn those updates into something the company might have to respond to.

Scarier still, it is not unimaginable that our young geologist, wanting to brag about her "new office", might post a picture to Facebook or Instagram (having first applied an artsy filter, of course) of a scenic African landscape with a cup of coffee placed deliberately and delicately – on top of a copy of recent drill results not yet announced to the market.

While these scenarios are both fictional, the rate at which social media is integrating into our everyday lives emphasizes the importance of listed companies having considered and accounted for the risks social media presents.

Anyone who doubts the serious consequences that might flow from a major social media incident need only refer to the recent tweet posted on the official Associated Press Twitter account after it was compromised by hackers. After tweeting that there had been an explosion at the White House, injuring President Obama, US markets crashed and an estimated US$136.5 billion was wiped from the S&P 500 Index. Soon after the tweet was discovered to be a hoax the index recovered, but the incident demonstrates that communications via social media, even communications made in error, can have serious and extreme consequences.

How to Comply

The above demonstrates that an important question for management to consider is "*how do we make sure our business' use of social media minimizes any potential legal risks?"*

A good starting point is to have a well-drafted social media policy and to make sure that all staff are up to speed with how that policy affects their use of social media channels. Ensuring that staff are trained in how different social media platforms work is also a good way of ensuring that they know what they are doing, and can use their own good judgment to avoid mistakes, as many issues to do with social media seem to come from a lack of understanding of how the different platforms actually work.

Make sure that your business has set and widely understood processes in place to review messages to be distributed via social media before they are sent on behalf of the business. That way any misleading, deceptive or defamatory statements can be identified and amended before they are sent. Due to the speed of social media and its natural immediacy, these procedures need to be quick and efficient. You cannot take a few days to review a tweet, because by the time you send it the moment has passed and it may already be widely circulated by the "Twitterverse".

Finally, businesses should monitor and moderate their social media platforms, to ensure that third party comments that could offend or breach legal obligations are deleted or amended. Equally important for companies listed on the ASX, social media platforms need to be monitored to see what information related to the company is being circulated and discussed, so that the company can put out official corrective statements wherever necessary. Listed companies should be able to quickly request a trading halt in order to prevent company's securities trading while false or improper information affects the market.

All in all, it is not that difficult. Social media is an effective communications channel and the reality is that it is here to stay. Commercially savvy businesses will quickly accept that there is a commercially beneficial "sweet spot" to be struck between the two extreme views that social media is a compliance minefield that needs to be avoided, or that it is a lawless cyber-outland where anything goes.

Remembering that Australian law applies to social media just like any other communications channel is always the best place to start. The law will still apply, even with all the smiley faces.

By Alexander Butterworth

US Supreme Court Holds That Isolated Human DNA is Not Patent Eligible Subject Matter Under Section 101

US Supreme Court's decision in *Association for Molecular Pathology, et al. v. Myriad Genetics, Inc., et al.* attempts a compromise by unanimously holding that an isolated DNA segment is not patent eligible subject matter while cDNA is patent eligible because, unlike isolated DNA segments, cDNA is not a product of nature. The Court does not, however, consider whether patents on cDNA are valid.

On June 13, 2012 the US Supreme Court reversed in part a ruling of the US Court of Appeals for the Federal Circuit, which had held that both isolated DNA and cDNA were patent eligible subject matter under §101 of the Patent Act. *Ass'n for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S. Ct. 2107 (June 13,2013).

The Court addressed (1) whether a naturally occurring segment of DNA is eligible for patenting "by virtue of its isolation from the rest of the human genome"; and (2) whether synthetically created DNA known as complementary DNA (cDNA), "which contains the same protein-coding information found in a segment of natural DNA but omits portions within the DNA segment that do not code for proteins," was patent eligible. *Id.* at **6. The Court found the latter to be patent eligible while the former was held to not be patent eligible because it was a product of nature.

Patent eligibility has been somewhat of a hot topic lately, and has led to some confusion, with the Supreme Court seeming to conflate patentable subject matter and patent validity. Patentable subject matter includes "any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof." 35 USC §101. A long held exception to the foregoing is that laws of nature, natural phenomena, and abstract ideas are not patentable. *Id.* at **21. Here, one of the questions was whether an isolated segment of

DNA was a new and useful composition of matter since it did not exist in nature in isolated form.

By way of background, a short biology primer to explain the ruling: DNA consists of sequences of nucleotides that code for amino acids. The body uses these amino acids to build proteins. However, some of the DNA nucleotides do not fall into a sequence that codes for amino acids, these are called "introns." The nucleotides that do code for amino acids are called "exons." In order to create proteins, the DNA double helix unwinds, one of the two strands is translated into ribonucleic acid (RNA) creating an inverse image of the DNA strand from which it was created. All introns are then removed from the RNA strand, creating the messenger RNA (mRNA). The mRNA is the script by which the body assembles the specific sequence of amino acids to create proteins. The mRNA can then be reverse transcribed(or technologies that locate exons from a DNA sequence can be employed) to create synthetic DNA, or complementary DNA (cDNA), which is DNA with the introns removed.

Myriad Genetics Inc. identified the exact location of certain genes (known as BRCA1 and BRACA2) on chromosomes 17 and 13, which have 80 million and 114 million nucleotides respectively. The mutations in these genes can dramatically increase an individual's risk of developing breast and ovarian cancer. *Id.* at **10. Accordingly, Myriad claimed "the exclusive right to isolate an individual's BRACA1 and BRACA2 genes (or any strand of 15 or more nucleotides within the genes) by breaking the covalent bonds that connect the DNA to the rest of the individual's genome." Myriad's patents further claimed exclusive right to synthetically created BRCA cDNA." *Id.*at **14.

The Court focused on its holding in *Diamond v. Chakrabarty*, 447 U.S. 303 (1980) where it ruled that "[p]roducts of nature are not created, and manifestations…of nature [are] free to all men and reserved exclusively to none" (internal quotations omitted). The Court held that "[i]n this case…Myriad did not create anything. To be sure, it found an important and useful gene, but separating that gene from its surrounding genetic material is not an act of invention." *Id.* at **23. The Court went on to state that "[g]roundbreaking, innovative, or even brilliant discovery does not by itself satisfy the §101 inquiry." *Id.* Accordingly, the Court concluded that "Myriad found the location of the BRCA genes, but that discovery, by itself, does not render the BRCA genes 'new…composition[s] of matter.'" *Id*. at **24-25.

The Court further held that because "cDNA sequence from mRNA results in an exons-only molecule that is not naturally occurring," the cDNA is not a product of nature and is therefore patent eligible under §101. *Id.* at **30. The Court rejected petitioners' argument that since the nucleotide sequence of cDNA is dictated by nature (i.e., the mRNA), the cDNA should not be considered patent eligible.

Although the Court held cDNA to be *eligible* for a patent under §101, this does not necessarily mean that patents on cDNA are valid. The Court specifically noted that it expressed no opinion as to whether cDNA satisfies the other statutory requirements of patentability, such as those under Sections 102 (novelty), 103 (nonobviousness) and 112 (written description) of the Patent Act. One potential challenge to a patent on the BRCA cDNA might come from §103, which states that a "patent for a claimed invention may not be obtained if the differences between the claimed invention and the prior art are such that the claimed invention as a whole would have been obvious before the effective filing date of the claimed invention to a person having ordinary skill in the art." 35 USC §103. This nonobviousness requirement attempts to avoid patents for trivial changes to prior art (or things in the public domain).

There is some support that laws of nature and abstract ideas should be considered prior art and would thus color any nonobviousness analysis. In *Parker v. Flook*, the Supreme Court held that "[r]espondent's process is unpatentable…not because it contains a mathematical algorithm as one component, but because once that algorithm is assumed to be within the prior art, the application, considered as a whole, contains no patentable invention." *Parker v. Flook*, 437 U.S. 584, 592 (1978). This same idea was recognized in Judges Linn and O'Malley's dissenting opinion in *CLS Bank Int'l v. Alice Corp.* in which they noted that the prior art would include the abstract idea itself. *CLS Bank Int'l v. Alice Corp. Pty*, 2013 U.S. App. LEXIS 9493 (Fed. Cir. May 10, 2013).

Although treating laws of nature and abstract ideas as though they were part of the prior art has been recognized only in §101 (patentable subject matter) cases, the Federal Circuit recently acknowledged that this consideration better fits as part of a validity analysis. See *Ultramercial, Inc. v. Hulu, LLC*, 2013 U.S. App. LEXIS 12715, *31 (Fed. Cir. June 21, 2013). The *Ultramercial* court noted that this consideration requires an "understanding of what existed in the ken of those skilled in the art during the relevant time frame" and thus was more a principle of patent validity rather than eligibility. *Id.* at *31-32. The court further recognized that "because a new combination of old steps is patentable [subject matter], as is a new process using an old machine or composition, subject matter eligibility must exist even if it was obvious to use the old steps with the new machine or composition." *Id.* at 32-33.

Accordingly, even where a patent claims eligible subject matter, practitioners might argue that abstract ideas, naturally occurring materials or natural laws should be treated the same as prior art in a nonobviousness analysis.

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