



IDEAS ON INTELLECTUAL PROPERTY LAW

OCTOBER/NOVEMBER
2018

Supreme Court patent update

Inter partes review survives constitutional challenge

D.C. Circuit tunes in to streaming content copyright issues

All tied up

Court splits over trade dress, trademark claims

Why the Federal Circuit voted against a ballot verification patent



Cantor Colburn LLP

Supreme Court patent update

Inter partes review survives constitutional challenge

Patent trolls are a significant nuisance to a range of industries. But the U.S. Supreme Court recently upheld a procedure that makes it easier for patent trolls' potential victims to avoid prolonged litigation or costly settlements.

INTER PARTES REVIEW

The America Invents Act of 2012 (AIA) created inter partes review (IPR) proceedings where the U.S. Patent and Trademark Office (PTO) can reconsider and cancel an already-issued patent based on certain types of "prior art." This includes existing patents or printed publications showing that the invention wasn't novel or nonobvious, in whole or in part, before the effective filing date of the patent application. Under the law, any person other than the patent holder can petition for review.

If review is "instituted," the petitioner and the patent owner can conduct limited discovery and file affidavits, declarations and written memoranda. The process also allows for an oral hearing before the Patent Trial and Appeal Board (PTAB). The board's final decision is subject to review by the Federal Circuit Court of Appeals.

IPR is seen as a potential weapon against patent trolls who obtain patents solely for the purpose of suing alleged infringers for royalties and damages. Accused infringers who seek relief from the PTAB through IPR may be able to avoid court battles or settlements for infringement of questionable patents.

CHALLENGING THE LAW

Oil States Energy Services, LLC, had a patent for technology that protects wellhead equipment used in hydraulic fracturing (fracking). It sued Greene's Energy Group, LLC, for infringement of that patent.

Greene's responded by challenging the patent's validity based on prior art on two tracks — in the trial court and by petitioning the PTO for IPR. Shortly after the court found the patent valid, the PTAB nonetheless ruled that Oil States' invention was unpatentable.

Oil States appealed the PTAB's decision to the Federal Circuit. Among other things, it challenged the constitutionality of IPR. It argued that actions to revoke a patent must be tried in a court before a jury. The appellate court affirmed the PTAB's decision, and Oil States appealed to the Supreme Court.

IPR RULED CONSTITUTIONAL

The Supreme Court began its review by noting that Congress has significant latitude to assign the adjudication of "public rights" to entities other than



SCOTUS MAKES IPR ALL OR NOTHING

On the same day the U.S. Supreme Court issued its ruling in *Oil States Energy Services, LLC v. Greene's Energy Group* (see main article), it released another opinion addressing inter partes review (IPR). The 5-4 decision in *SAS Institute, Inc. v. Iancu* reversed the U.S. Patent and Trademark Office's (PTO's) longstanding practice of determining whether to institute — or grant — IPR of challenged patents on a claim-by-claim basis.

SAS Institute, Inc., challenged 16 claims in a software patent owned by complementSoft, but the PTO instituted review on only some of those claims. On appeal, the Federal Circuit Court of Appeals rejected SAS's argument that the Patent Trial and Appeal Board (PTAB) was legally required to decide the patentability of every claim challenged.

The Supreme Court disagreed, holding that the PTAB must review all of the claims a petitioner has challenged or none. It found that the relevant statutory language indicates that the petitioner's challenges, not the PTAB's discretion, should define the contours of the proceeding.



the courts. This public rights doctrine, the Court said, applies to matters between the government and others that don't *require* judicial determination despite being *susceptible* to it.

IPR is seen as a potential
weapon against patent trolls who
obtain patents solely for the purpose
of suing alleged infringers for
royalties and damages.

The Court found that the grant of patents falls squarely within the doctrine because patents are “public franchises” that the government grants to inventors on behalf of the public. The franchise gives the patent owner the right to exclude others from making, using, offering for sale or selling the invention in the United States. Moreover, granting patents is a constitutional function that can be carried out by the executive or legislative branches of government without judicial determination. When the PTO adjudicates the patentability of inventions, the Court said, it exercises the executive power.

The high court reasoned that IPR — essentially “a second look at an earlier administrative grant of a patent” — involves the same basic matter as the grant of a patent and the same interests as the original grant. It found irrelevant the fact that IPR occurs after a patent has issued, as patents are granted subject to the qualification that the PTO has the authority to cancel them later. And it has previously recognized that franchises can be qualified in this manner.

Finally, the Court dismissed the argument that IPR was unconstitutional because it shares “every salient characteristic associated with the exercise of judicial power,” such as discovery, depositions and cross-examination of witnesses. It pointed out that it has never adopted a “looks like” test to determine if an adjudication improperly occurred outside a court.

A CAVEAT

The Court's ruling is welcome news for those targeted by patent trolls or other holders of patents of dubious validity. However, the Court made clear that this case didn't require it to consider whether the retroactive application of IPR to patents granted before the AIA was allowable. That question remains for another day. ▣

D.C. Circuit tunes in to streaming content copyright issues

Streaming media has opened up a vast landscape of previously unavailable content for many. It's also triggered an array of novel copyright infringement questions. In a case involving the streaming of content originating abroad into the United States, the D.C. Circuit Court of Appeals has tackled two previously unsettled questions about the scope of infringement liability under the Copyright Act.

THE CAST

Telewizja Polska, S.A. (TV Polska), a Polish broadcaster, entered into a licensing agreement with Spanski Enterprises, Inc. The agreement gave Spanski the exclusive right to perform the content of one of TV Polska's channels in North and South America. TV Polska used geoblocking technology to prevent users in those regions from accessing the content via its website.

In 2011, Spanski discovered that 51 episodes of content they had registered with the U.S. Copyright Office weren't properly blocked and *were* available to North and South American viewers through TV Polska's video-on-demand (VOD) system. It sued TV Polska under the Copyright Act. The trial court found TV Polska liable for infringement, imposing statutory damages of more than \$3 million. TV Polska appealed.

THE FOREIGN MARKET

TV Polska asserted that it couldn't be held liable for infringement because it didn't do anything in the United States. The question of whether an infringing performance that originates abroad but reaches U.S. viewers can be actionable under the Copyright Act had not yet been addressed by a federal appellate court.



Applying the U.S. Supreme Court's two-part test for determining whether a statutory violation that occurs abroad creates liability, the D.C. Circuit focused on the second step — whether the case, notwithstanding its extraterritorial elements, involves a permissible domestic application of the statute. A case does so, the court explained, only if the conduct relevant to the law's focus occurred in the United States.

The appeals court determined that the Copyright Act focuses on protecting the exclusivity of the rights the statute guarantees. Although TV Polska uploaded and digitally formatted the episodes in Poland, the infringing performance — and violation of the copyrights — took place on computer screens in the United States.

Thus, the court concluded, the case involved a permissible domestic application of the Copyright Act, even if other conduct occurred abroad. To hold otherwise, given the ease of transnational Internet transmissions, would leave the door open to widespread infringement and render copyright in works capable of online transmission “largely nugatory.”

THE SEQUEL

The appeals court also considered TV Polska’s argument that allegedly infringing conduct must be “volitional” to support a claim for direct infringement. TV Polska contended that the automated nature of its VOD system or the end user’s role in selecting the content to access insulated it from liability.

Whether an infringing performance that originates abroad but reaches U.S. viewers is actionable under the Copyright Act had not yet been addressed by a federal appellate court.

The court rejected that argument. A copyright holder has the exclusive right to perform its copyrighted work publicly, and the Copyright Act imposes liability when a defendant makes it possible for “members of the public” to receive the performance of copyrighted content. Because TV Polska showed the episodes to

the public through a VOD system that allowed members of the public to receive the performance, it violated Spanski’s public performance right.

Notably, the court declined to decide whether the Copyright Act requires volitional conduct, finding it unnecessary for this case. TV Polska used its own equipment to allow users to watch programs, many of which were copyrighted, by transmitting content on request. This conduct constituted infringement “whatever the scope of any such requirement might otherwise be.”

TO BE CONTINUED

The D.C. Circuit is the first federal appeals court to hold that U.S. copyright law applies to performances originating abroad but viewable in the United States. The ruling should make it harder for copyright infringers to avoid liability by moving to another country. But other federal appeals courts have found that infringement liability requires volitional conduct, while the Department of Justice has argued against such a requirement. The ultimate determination of both issues may yet come. ▣

All tied up

Court splits over trade dress, trademark claims

In 2013, the Ninth Circuit Court of Appeals ruled that a trademark holder seeking a preliminary injunction after filing suit against an alleged infringer must establish the likelihood of irreparable harm, rather than relying on a presumption of harm. Not until this year, though, has the court elaborated on the kind of proof required. Its recent ruling sheds light on what does — and doesn’t — demonstrate irreparable harm.

ON THE RUN

Adidas America, Inc., is a manufacturer of active footwear and apparel. The “Stan Smith” has been one of adidas’ most successful shoes since its release in the 1970s. It has received extensive media coverage, and the company has sold more than 40 million pairs. Adidas also is known for its federally registered Three-Stripe trademark, which it has featured on products for many years as part of its branding strategy.



Adidas sued its competitor Skechers for infringement. It alleged that Skechers' Onix shoe infringed the unregistered trade dress on the Stan Smith and that Skechers' Cross Court shoe infringed the Three-Stripe trademark. Before trial, the district court issued a preliminary injunction prohibiting Skechers from selling shoes that allegedly infringe the trade dress and trademark.

Among other things, a plaintiff seeking a preliminary injunction must establish that it's likely to suffer irreparable harm in the absence of the injunction. Skechers appealed the preliminary injunction, arguing in part that adidas had failed to satisfy this requirement.

A SPLIT DECISION

The appeals court reviewed the preliminary injunction as it related to the Onix and Cross Court separately. It found that adidas was likely to suffer irreparable harm to its brand reputation and goodwill without a preliminary injunction against the Onix. The Stan Smith's extensive and targeted advertising and unsolicited media coverage, along with adidas' tight control of its supply, showed adidas has built a specific reputation around its trade dress with "intangible benefits." Customer surveys demonstrated those benefits would be harmed by the Onix due to confusion about their source.

But the court struck down the preliminary injunction against the Cross Court based on the lack of evidence of irreparable harm. Adidas argued only that consumers who see others wearing Cross Court

shoes associate the allegedly lesser-quality shoes with adidas. The court, however, found no evidence to support this theory other than testimony from adidas employees.

The court also noted the tension between adidas' consumer confusion and irreparable harm arguments. If a consumer viewed a Cross Court from such a distance that she didn't notice the Skechers logo and therefore thought it was an adidas shoe, the appeals court reasoned, it was unlikely she would be able to reasonably assess the shoe's quality.

A plaintiff seeking a preliminary injunction must establish that it's likely to suffer irreparable harm in the absence of the injunction.

NO HARM, NO FOUL

The ruling provides a useful illustration of the types of evidence that show a plaintiff is likely to suffer irreparable harm — and, in turn, the propriety of preliminary injunctions in trademark and trade dress disputes. Parties seeking preliminary injunctions should have evidence showing they would lose control over their business reputation and sustain damage to goodwill in the absence of an injunction. □

Why the Federal Circuit voted against a ballot verification patent

The U.S. Court of Appeals for the Federal Circuit, the court that hears all appeals of patent cases, continues to invalidate patents directed to abstract ideas. It applies the test established in 2014 by the U.S. Supreme Court. In a recent case, it ruled that a patent covering voting methods and systems providing for “auto-verification” of ballots was invalid as attempting to patent an abstract idea.

IS IT PATENTABLE?

Voter Verified, Inc., has twice sued Election Systems & Software LLC for infringement of a patent for computer-implemented methods of “voting and checking the accuracy of a paper election ballot.” Generally, the patent describes a process in which:

- A voter enters a vote into a voting system,
- The system generates a corresponding printed ballot, and
- The voter verifies the printed ballot for accuracy and submits it for tabulation.

In the most recent case, Election Systems filed a motion to dismiss, arguing that the patent was invalid under Section 101 of the Patent Act. This provision limits patent-eligible subject matter to new and useful — or new and useful improvements of — processes, machines, manufactures or compositions of matter. Laws of nature, physical phenomena and abstract ideas aren’t patent-eligible.

The trial court applied the *Alice* test for identifying patents that cover nothing more than abstract ideas and granted Election Systems’ motion to dismiss. Under the *Alice* test, the court determines whether the claimed invention is a patent-ineligible abstract idea. If so, it determines whether the invention

includes an “inventive concept” that transforms it into a patent-eligible application of the abstract idea. Voter Verified appealed the trial court’s dismissal.

IS IT ABSTRACT AND TRANSFORMATIVE?

Like the trial court, the Federal Circuit also applied the *Alice* test. On the first step, it found the patent as a whole covered the concept of voting, verifying the vote and submitting the vote for tabulation. Even Voter Verified characterized these steps as “human cognitive actions,” and the court concluded they were “nothing more than abstract ideas.”

Moving to the second step, the court found no inventive concept sufficient to transform the invention into a patent-eligible application of



the abstract ideas. The patent described the use of general purpose computer components, including a standard personal computer, a visual display device, a keyboard, data storage devices, a laser printer and a scanner. As the Federal Circuit noted, earlier cases have repeatedly held that such standard components aren’t sufficiently transformative.

HUMAN TOUCH

The Federal Circuit has been applying the two-step test for several years. One consistent takeaway from the resulting rulings? The court is likely to find that patents covering human activity, with computer or software components that add no more than conventional functions, are invalid. □



Cantor Colburn LLP

20 Church Street
22nd Floor
Hartford, CT 06103



Protect What's Yours

Cantor Colburn LLP is one of the largest full-service intellectual property law firms in the country, providing clients around the world with the services that allow them to enjoy the full value of their intellectual property assets.

Primary services include:

- Litigation
- Patent
- Trademark
- Strategic Portfolio Management
- Landscaping & Risk Analysis
- Copyright
- Due Diligence
- Transactional
- International
- Post Grant Proceedings
- Trade Secrets
- Opinions
- Anti-Counterfeiting
- Pharmaceutical Litigation

Call Us Today.



Hartford, CT
860.286.2929

Washington, D.C.
703.236.4500

Atlanta, GA
404.607.9991

Houston, TX
713.266.1130

Detroit, MI
248.524.2300

www.cantorcolburn.com

Managing Partners: Michael A. Cantor & Philmore H. Colburn II