



IDEAS ON INTELLECTUAL PROPERTY LAW



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Train in vain

Patents for mass transit fare systems struck down

Who owns the copyright of stock photos?

Proving infringement of system patents

Court rejects jury's infringement finding in phone case

Federal Circuit clarifies surname test for trademarks



Cantor Colburn LLP

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Patents for mass transit fare systems struck down

The Federal Circuit Court of Appeals, the court that hears all appeals of patent-related cases, continues to engage in abstract thinking — thinking about the patent-eligibility of abstract ideas, that is. In the wake of *Alice Corp. v. CLS Bank Int'l*, the Federal Circuit has repeatedly reviewed whether patents are invalid because they covered patent-ineligible inventions. In this case, for example, the plaintiff ended up having four patents wiped out as invalid on this basis.

PATENTS DERAILED

Smart Systems Innovations, LLC, (SSI) held four patents designed to implement open-payment fare systems in mass transit networks in the United States. An open-payment system allows riders to access mass transit using existing bank cards, such as debit and credit cards, eliminating the need for dedicated fare cards, paper tickets or tokens.

Specifically, two of the patents covered a system and method for regulating entry to a transit system using information from a bank card to verify the card's validity and deny access to invalid cards. The other patents encompassed a system and method that:

1. Acquires identification data from a bank card and funds a ride from a balance associated with the card, and
2. Determines whether a bank card is associated with a time pass (for example, a monthly subway card) and, if so, charges a different fare.

SSI sued the Chicago Transit Authority for infringement of the patents. The trial court dismissed the



case, holding the patents covered a patent-ineligible abstract idea. SSI then appealed.

THE ROUTE TO PATENT ELIGIBILITY

Under the federal Patent Act, a patent may be obtained for “any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof.” The U.S. Supreme Court has consistently held that abstract ideas aren’t patent-eligible and, in *Alice*, developed a two-part test for determining whether an invention is a patent-ineligible abstract idea.

First, a court must determine whether the patent covers an abstract idea. If so, it must then consider the elements of the claim and determine whether these additional elements, individually or taken together as an ordered combination, include significantly more than the abstract idea itself. Some courts have phrased this second part of the test as requiring an inventive concept that transforms the claim into a patent-eligible application of the abstract idea. The critical issue is whether the patent claims an abstract

HOW IMPROVEMENTS CAN PRECLUDE THE ABSTRACT IDEA BAR

The plaintiff in *Smart Systems Innovations, LLC v. Chicago Transit Authority* argued that its inventions weren't abstract because they improved prior fare collections systems by expediting the turnstile process. The Federal Circuit Court of Appeals shot down this argument.

The court acknowledged, though, that it has previously found that inventions that improve the functioning of a computer might avoid the abstract idea exception. As the court explained, the fate of a patent on such an invention turns on whether the patent focuses on the asserted improvement or merely invokes computers as a tool. The plaintiff in *Smart Systems*, however, didn't argue that its patents covered an improvement in computer technology.

The Federal Circuit also cited an earlier case where it found that a process using a combined order of specific rules wasn't abstract, because it improved on existing technological processes. But because the plaintiff's patents weren't for specific rules that improve a technological process, this argument failed as well.



idea that's such a basic building block of scientific or technological activity that it would preempt future innovation (patent ineligible), as opposed to covering only a tangible application that serves a new and useful end (patent eligible).

The U.S. Supreme Court has consistently held that abstract ideas aren't patent-eligible and has developed a two-part test for determining whether an invention is a patent-ineligible abstract idea.

PATENTS DON'T PASS

The Federal Circuit initially found that SSI's invention was indeed an abstract idea. Taken together, the court said, the patents cover the formation of financial transactions in a particular field (mass transit) and data collection related to such transactions. The patents didn't relate to a new type of bank card, turnstile or database or provide a method for processing data that improves existing technological

processes. Rather, they covered the collection, storage and recognition of data, which the court has previously held amount to an abstract idea.

Moving on to the second step in the test, the court held that SSI's inventions didn't contain an inventive concept that would make them a patent-eligible application. A patent with an inventive concept includes additional features that are more than just well-understood, routine, conventional activities.

The Federal Circuit found that the patents incorporated various generic computer hardware elements that didn't constitute an inventive concept. Ultimately, the patents covered nothing more than an abstract business practice — running a bank card sale — and therefore were invalid.

NOT THE FINAL STOP

Decisions regarding the patent-eligibility of abstract ideas have gone both ways, upholding patents in some cases and invalidating them in others. One trend is clear, though: The court considers the collection, storage and recognition of data an abstract idea that isn't patent-eligible without an inventive concept that transforms the invention into an application of the idea. ■

Who owns the copyright of stock photos?

Thanks in part to the proliferation of websites over the past couple of decades, the use of stock photography is more widespread than ever. And the posting of photos online — as well as in print — has created a copyright infringement bonanza. But who has the right to enforce copyright claims involving use of stock photographs? The Ninth Circuit Court of Appeals recently tackled this question.

TAKING PICTURES

DRK Photo is a stock photo agency that markets and licenses images created by others for use by publishers. From 1992 to 2009, McGraw-Hill Global Education Holdings, LLC, licensed photos from DRK for use in its textbooks.

DRK has historically entered into “representation agreements” with the photographers whose photos make up its collection. The agreements appoint DRK as a nonexclusive agent to license and sell the covered photographs.

In 2008, DRK sought copyright registration for the photographs in its collection and asked various photographers to execute “assignment agreements.” Those agreements granted DRK all copyright in the

works and complete legal title. DRK agreed to reassign these rights and legal title back to the photographers on completion of registration and resolution of infringement claims DRK had filed related to the images. The photographers also transferred the right to any accrued or subsequent claims or lawsuits to enforce copyrights, and permitted DRK to prosecute such claims as if it were the photographers.

Because a nonexclusive license doesn't constitute a transfer of ownership of a copyright in a work, it can't be used to confer standing to bring an infringement suit.

DRK sued McGraw-Hill for infringement, asserting that the publisher had exceeded the scope of its license by printing more books with licensed photos than authorized. The trial court dismissed the case, finding DRK lacked standing to pursue the infringement claims, and DRK appealed to the Ninth Circuit Court of Appeals.



FINDING OWNERSHIP

Under the U.S. Copyright Act, the legal or beneficial owner of an exclusive right under a copyright (for example, the right to distribute copies of the copyrighted work) can sue for infringements of that right committed while he or she owns it. The Ninth Circuit found that DRK was neither the legal nor the beneficial owner of the stock photos at issue.

DRK contended that the representation and assignment agreements gave it the legal ownership necessary to

have standing. However, the representation agreements didn't give DRK an exclusive license to authorize use of the photographs. Because a nonexclusive license doesn't constitute a transfer of ownership of a copyright in a work, it can't be used to confer standing to bring an infringement suit. The court further found that the assignment agreements transferred only "the bare right to sue" over accrued infringement claims, not legal ownership.

DRK also claimed beneficial ownership based on the representation and assignment agreements. The Ninth Circuit quickly dismissed this claim, though, reiterating that the agreements made DRK a non-exclusive licensing agent and an assignee of accrued

infringement claims. It refused to hold that the agency was a beneficial owner on the same grounds it held in deciding that it couldn't support a finding of legal ownership.

A CLEARER PICTURE

The Ninth Circuit's ruling clarifies the issue of whether a stock photography agency could bring copyright infringement claims involving photos from its collection. As the court made clear, an agency can sue only if it has an assignment or exclusive license transferring a copyright right — an assignment of the right to sue over accrued claims or a nonexclusive license isn't enough for standing purposes. □

Proving infringement of system patents

Court rejects jury's infringement finding in phone case

You might think it would be easier to prove infringement of a patented system having multiple components. The more parts, the more opportunity to prove infringement. Not so. As one patentee learned the hard way, more parts means more to prove.

MESSAGE SENT

Intellectual Ventures LLC (IV) holds a patent related to electronic file transfers between computers or computing devices such as smartphones. It sued Motorola Mobility LLC for direct and indirect patent infringement. The direct infringement allegedly occurred when Motorola made and sold infringing devices; the indirect infringement allegedly resulted when it induced or contributed to its customers' infringement.

After a jury found in favor of IV, Motorola asked the court to nonetheless grant it judgment "as a matter of law," arguing that a reasonable jury couldn't possibly have found that the company infringed the patent.

The trial court rejected the request, and Motorola appealed to the Federal Circuit Court of Appeals.

DISTRICT COURT BLOCKED

Under the Patent Act, direct infringement includes the unauthorized "use" of a patented invention. In the case of a patent for a system, use occurs when the system as a whole is put into service. That occurs when a party exercises control of the system and obtains beneficial use of it.

To prove an infringing use of a system, a patentee must show control and benefit of the system by the accused infringer. The trial court found that it was enough for the patentee to show that the defendant derived a benefit from a single component of the patented system.

The Federal Circuit disagreed. It held that, to use a system, each element of the system must be used — meaning the patentee must demonstrate that the



defendant controlled (even if indirectly) and benefited “from each and every element,” not just one.

JURY’S VERDICT DELETED

Having defined the proper test, the Federal Circuit turned its attention to the system before it. IV’s system included a “communications device,” a “second device” and an “authenticating device configured to ... generate a delivery report.” Motorola conceded that its accused phones used a communications device and a second device for sending and receiving text-plus-photo messages using a multimedia messaging service (MMS).

The critical question was whether there was substantial evidence that Motorola customers obtained a benefit from the generation of delivery reports. IV presented no evidence that the customers ever generated a delivery report, instead relying on evidence that the delivery reports were generated by MMS centers maintained or operated by the customers’ wireless service carriers when they used the phones.

The court noted that the only benefits identified in the patent as flowing from the delivery reports rested on the sending device’s ability to receive or retrieve the reports from the third-party authenticating device. The evidence, however, didn’t show that Motorola customers ever received the reports.

The phones could send and receive MMS messages, and the sending phone could display a confirmation

that the message was received. IV’s expert witness admitted, though, that all but one of the MMS centers discussed at trial were technologically incapable of transmitting delivery reports to the sending phone. Moreover, Motorola phones were configured *not* to request delivery reports from the MMS centers.

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Unless a customer affirmatively took steps to change the default configuration of his or her phone, the benefit of the delivery report couldn’t have been realized. IV presented no evidence that any customers did alter their phones to receive delivery reports or even knew the reports existed and were available.

NOT ENOUGH EVIDENCE

The court concluded that IV presented insufficient evidence of benefit from the generation of a delivery report and therefore failed to prove a directly infringing use of the patented system. And, because a finding of direct infringement is a prerequisite to a finding of indirect infringement, it held that Motorola was entitled to judgment as a matter of law regarding noninfringement of the patent. ▣

Federal Circuit clarifies surname test for trademarks

What's in a name? The answer to that question might determine whether a mark that includes someone's surname is eligible for trademark registration. The Federal Circuit Court of Appeals has shed some light on when a mark with a surname is — and isn't — registrable as a trademark.

THE RACE TO THE COURTHOUSE

Kerry Earnhardt is a son of race driver Dale Earnhardt and co-founder and CEO of Kerry Earnhardt, Inc. (KEI). Teresa Earnhardt is Dale's widow and owns trademark registrations containing the mark "Dale Earnhardt." Teresa opposed KEI's trademark application for the mark "EARNHARDT COLLECTION."

The Trademark Trial and Appeal Board (TTAB) dismissed her opposition. Teresa appealed to the Federal Circuit.

THE COURT OF APPEALS' LAP

The U.S. Patent and Trademark Office (USPTO) can deny registration for a mark that's "primarily merely a surname." The reasoning behind refusing to register a mark that is a surname is that a surname is shared by multiple people who may have an interest in using it in business. When determining whether a mark is primarily merely a surname, the primary significance of the mark must be considered as a whole.

When a mark combines two terms, the USPTO must consider the mark in its entirety, not as two separate parts. To evaluate the commercial impression of a mark that combines a surname and another term, the USPTO must determine whether the surname is the primary significance of the mark as a whole in connection with the designated goods and services.

A key element in this inquiry is determining the relative distinctiveness of the second term. If that term

is "generic" (meaning it refers to a class of goods or services) or merely "descriptive" of the goods or services, it likely isn't sufficiently distinctive to diminish the surname significance.

In the case at hand, Teresa argued that the TTAB had considered only whether "collection" was generic for KEI's goods and services. The TTAB determined that "collection" wasn't a generic term for the goods filed for in the application (furniture). Generic terms are a separate category from descriptive marks. The Federal Circuit ruled that the TTAB also should have considered whether "collection" was descriptive. It was unclear from the TTAB's written opinion whether it had done so.

BACK TO THE STARTING LINE

Because of this lack of clarity, the Federal Circuit returned the case to the TTAB for reconsideration. It specifically directed the board to determine 1) whether the term "collection" is merely descriptive of KEI's furniture and construction services and 2) the primary significance of the mark as a whole to the purchasing public. □





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