



IDEAS ON INTELLECTUAL PROPERTY LAW



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Active or passive?

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Cantor Colburn LLP

Active or passive?

What makes website operators directly liable for copyright infringement

As many copyright holders have learned the hard way, the Internet opened a whole new frontier in the world of infringement, particularly when it comes to pinning liability on the appropriate parties. In a recent case involving the unauthorized use of thousands of copyrighted photographs, the U.S. Court of Appeals for the Ninth Circuit laid out the types of behaviors that will — and won't — make a website operator directly liable for copyright infringement on their sites.

A PHOTOGRAPHER SNAPS BACK

Zillow.com, an online real estate marketplace, posted numerous copyrighted photos owned by VHT, Inc., a professional real estate photography studio. VHT licenses its photos to real estate agents, multiple listing services and brokerages to use for marketing purposes.

Zillow uses VHT photos on two parts of its website. The Listing Platform features photos and information about properties on and off the market. The Digs section, geared toward home improvement and remodeling, features photos of artfully designed

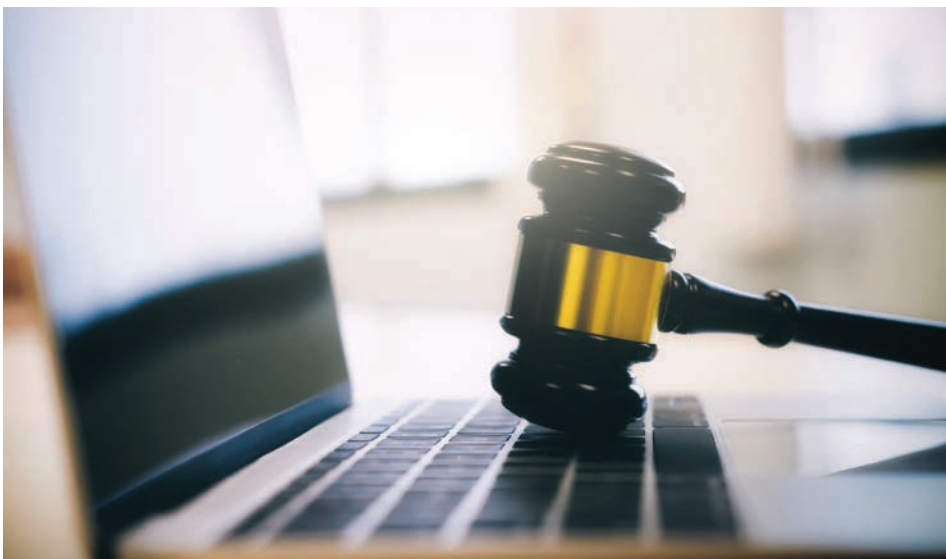
rooms in some of the properties. Zillow tags photos on the Listing Platform so Digs users can search by criteria such as room type, style, cost and color.

VHT sued Zillow, alleging various claims of copyright infringement. Before trial, the district court dismissed the direct infringement claim regarding the 54,257 nonsearchable photos displayed on the Listing Platform after a property was sold. Both parties appealed issues stemming from the jury verdict, and both pre- and post-trial rulings.

THE COURT FOCUSES ON CONDUCT

VHT challenged the trial court's pretrial dismissal of the direct infringement claims for the photos displayed on the Listing Platform postsale. It asserted its license agreements authorized use of those photos only in relation to the sale of the property.

As the Ninth Circuit noted, direct infringement liability requires conduct by the accused that reasonably can be described as the direct cause of the infringement. This prerequisite, it said, takes on greater importance in cases that involve automated systems like Zillow's website.



The appellate court has previously held that direct copyright liability for website owners arises only when they're actively involved in the infringement to the degree that a court can conclude they violated the copyright owner's exclusive rights. Activities such as automatic copying, storage and transmission of copyrighted materials — instigated by others — generally don't suffice.

FAIR USE DEFENSE FAILS FOR SEARCHABLE PICS

On appeal, Zillow argued that the fair use doctrine insulated it from infringement liability for the photos the company selected and tagged for searchable functionality in the Digs section. Specifically, Zillow argued that Digs is effectively a search engine, which makes its use of the photos permissible transformative fair use.

The U.S. Court of Appeals for the Ninth Circuit cautioned that the label “search engine” isn’t a “talismanic term that serves as an on-off switch as to fair use.” It shot down Zillow’s argument, finding that making the photos searchable didn’t fundamentally change their original purpose when produced by VHT — to artfully depict rooms and properties.

The court found that any transformation paled in comparison to the uses upheld in earlier search engine cases. Moreover, Zillow’s handling of the photos did nothing to further the use of copyrighted works for the socially valuable fair use purposes identified in the Copyright Act of “criticism, comment, news reporting, teaching . . . scholarship, or research.”

To demonstrate volitional conduct, the Ninth Circuit said, a party like VHT must provide evidence showing the alleged infringer:

- Exercised control (beyond general operation of its website),
- Selected any copyrighted material for upload, download, transmission or storage, or
- Instigated any copying, storage or distribution of the copyrighted material.

Direct copyright liability for website owners arises only when they’re actively involved in the infringement.

The court found that VHT had failed to provide such evidence for the Listing Platform photos. It cited several reasons why Zillow hadn’t engaged in the necessary volitional conduct.

For example, the Listing Platform is populated with data submitted by third-party sources (such as real

estate agents) who attested to the permissible use of the data, and Zillow’s system for managing photos on the platform was constructed in a “copyright-protective way.” Zillow doesn’t select the photos on the platform feed — the third-party sources select and upload every photo that ends up on the platform. And Zillow required the providers to certify the extent of their rights to use each photo, classified each photo accordingly and programmed its automated systems to treat each photo consistently with the certified scope of use.

Zillow didn’t get off scot-free, though. The trial court had upheld the jury’s finding that it was directly liable for infringement of some of the photos selected and tagged for searchability on Digs. Zillow didn’t appeal this ruling, but did unsuccessfully assert a fair use defense on appeal. (See “Fair use defense fails for searchable pics” above.)

THE BIG PICTURE

The dual outcomes in this case — where hosting the photos didn’t support direct liability but selecting and tagging did — illustrate well the standards courts will apply when determining the copyright infringement liability for website operators. In short, providing an Internet-based facility for posting materials selected by users is passive participation that falls short of the required volitional conduct. ■

Vehicle charging station patents short-circuit under *Alice* analysis

The U.S. Court of Appeals for the Federal Circuit, the court that hears all patent-related appeals, continues to wield the so-called *Alice* test to knock down patents for abstract ideas. As part of one such decision, the court explained that abstract ideas aren't patent-eligible in the absence of an inventive concept that makes a claim "significantly more" than just the abstract idea — and the underlying abstract idea can't provide that inventive concept.

THE CHARGE

The case involved four patents relating to electric vehicle charging stations. The patented inventions link charging stations together, allowing site hosts, drivers and utility companies to communicate in real time to address the various parties' needs and preferences. The system allows:

- Each station to be managed from a central location,
- Drivers to locate stations in advance, and
- Users to interact with the electricity grid (so they can supply electricity to the grid).

ChargePoint, Inc., the patent holder, sued SemaConnect, Inc., for patent infringement. The trial court dismissed the case before trial, finding the patents covered a patent-ineligible abstract idea. The case then moved to the Federal Circuit.

THE ROAD MAP

Courts have long held that abstract ideas aren't patent-eligible. In *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, the U.S. Supreme Court established a two-part framework for determining whether an invention is a patent-ineligible abstract idea.



First, a court must determine whether the patent covers — or is "directed to" — an abstract idea. If so, the court then considers the elements of the claim to determine whether these additional elements, individually or taken together as an ordered combination, include an inventive concept that transforms the claim into a patent-eligible *application* of the abstract idea. The critical question is whether the patent claims an abstract idea that's such a basic building block of scientific or technological activity that it would inhibit future innovation.

The Federal Circuit here weighed whether the challenged patent claims focused on an abstract idea. It also considered the patent specification (the detailed description of the invention) the four patents shared, noting that it has found a patent's specification helpful in the first step of the *Alice* analysis. But the court added that even specifications packed with technical details about a physical invention can conclude with claims that cover nothing more than the broad abstract idea underlying the claims.

The court ultimately concluded that all four patents were directed to the abstract idea of “communication over a network for device interaction.” It described that idea as a “building block of the modern economy” and therefore patent-ineligible.

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The court next turned its attention to the search for an inventive concept that would render the invention patent-eligible. It found that the claims and

specification made clear that the only possible inventive concept that solves problems in the charging station industry was the network communication among the charging stations.

Network communication, however, was the abstract idea itself. And, the court said, an invention’s use of the abstract idea that the patent is directed to can’t supply the inventive concept that makes the invention significantly more than just the ineligible abstract idea.

A DEAD END

Despite ruling against the patents, the Federal Circuit acknowledged that “the inventors here had the good idea to add networking capabilities to existing charging stations to facilitate various business interactions.” Unfortunately for them, it also found “that is where they stopped, and that is all they patented” — a patent-ineligible abstract idea. ▣

Supreme Court ruling leaves a mark

Trademark right survives licensor’s bankruptcy

It’s never good news for a business when a company that the business has contracted with files for bankruptcy. But, according to a new U.S. Supreme Court ruling, there’s some good news for trademark licensees. In an 8-1 decision that resolves a split among federal courts of appeal, the Court held that in some circumstances a licensee can continue to use the licensed marks despite the licensor’s rejection of their agreement during the bankruptcy process.

LICENSOR PURSUES BANKRUPTCY

Tempnology, LLC, manufactured clothing and accessories designed to stay cool during exercise. It marketed the products under the brand name “Coolcore.”

In 2012, the company entered a licensing agreement with Mission Product Holdings, Inc. The agreement gave Mission the exclusive right to distribute certain Coolcore products in the United States, as well as a nonexclusive license to use the Coolcore trademarks in the United States and around the world.

The agreement was due to expire in July 2016. But in September 2015, Tempnology filed a petition for a reorganization bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. Shortly after filing, it sought permission under Section 365 of the Code to “reject” the licensing agreement with Mission.



The Bankruptcy Court approved the rejection and further held that the rejection terminated Mission’s right to use the Coolcore trademark. The Bankruptcy Appellate Panel reversed, holding that rejection doesn’t terminate rights that would survive a breach of contract outside of bankruptcy. But the U.S. Court of Appeals for the First Circuit reinstated the bankruptcy court’s decision. Mission then appealed to the Supreme Court.

COURT REVIVES LICENSEE’S RIGHTS

Sec. 365 authorizes bankruptcy trustees to assume or reject certain executory contracts. A contract is executory if some extent of performance is still due on both sides. If an executory contract is a good deal for the bankruptcy estate going forward, the debtor will want to assume it. If not, the debtor will want to reject it, repudiating any further performance on its part.

Under Sec. 365, rejection of an executory contract constitutes a breach of the contract. The other party has a claim against the estate for damages resulting from the debtor’s nonperformance, but it’s unlikely to ever be paid in full because it will be treated as an unsecured creditor. These creditors typically receive only pennies on the dollar.

Tempnology contended — and the Bankruptcy Court and First Circuit agreed — that rejection of a trademark licensing agreement has another consequence: It terminates the right to use the trademarks. Tempnology and the courts pointed out that several

provisions in Sec. 365 state that a counterparty to specific kinds of agreements (for example, leases and some other types of intellectual property licenses) may continue exercising contractual rights after a debtor’s rejection. They reasoned that, because Sec. 365 doesn’t include such an explicit exception for trademark licenses, a different rule applies.

The Supreme Court (and the U.S. Court of Appeals for the Seventh Circuit in an earlier case) struck down this theory. It held that rejection of an executory trademark licensing agreement is merely a breach of contract — not a termination or rescission of the contract. If a licensor breaches the agreement outside of bankruptcy, the breach generally doesn’t revoke the license or stop the licensee from doing what the license allows.

Rejection of an executory trademark licensing agreement is merely a breach of contract — not a termination or rescission of the contract.

And, the Court found, the same consequences follow in bankruptcy. The debtor doesn’t have to perform its remaining obligations under the agreement, but it can’t rescind the license already conveyed. Thus, the licensee can continue to do what the license authorizes.

A CAVEAT

A concurring opinion emphasized that the Court didn’t decide that every trademark licensee has the “unfettered right” to continue using licensed marks after rejection. Special terms in a licensing contract or state law could lead a bankruptcy court to limit a licensee’s postrejection rights. ■

PTAB rejects inherently obvious finding

What's obvious to one person isn't always obvious to another, and the same is true when it comes to patents. The U.S. Court of Appeals for the Federal Circuit demonstrated this principle in rejecting the Patent Trial and Appeal Board's (PTAB's) determination that a patent was inherently obvious. In doing so, it shed light on what factors establish when a claimed feature of a patented invention was "inherent" in an earlier invention.

IDENTITY CRISIS

PersonalWeb Technologies, LLC, owns a patent for a method and apparatus that create a unique identifier for each data item in a data processing system, based only on the content of the data item. The invention resolves certain problems associated with traditional naming conventions that identify data items based on characteristics such as user-created alphanumeric names or locations.

For example, when one device transfers a data item using just the name associated with the item, it's possible that the data item already exists on the second device, resulting in the creation of a duplicate. But a data system can use a content-based identifier to determine whether a data item is already present on a device and avoid duplication.

Apple, Inc., challenged the patent, arguing it was invalid because two earlier patents for systems that use identifiers made PersonalWeb's content-based identifier obvious to someone skilled in the relevant field. The PTAB agreed and found that one of the prior patents inherently described part of the patent at issue. PersonalWeb appealed.

INHERENT RISK

The Federal Circuit, however, agreed with PersonalWeb. Although it acknowledged that it was *possible* that the earlier patented system relied on by the PTAB used an "unstated ... identifier," the mere fact that a certain thing *may* result from a given set of circumstances isn't enough.

Rather, the challenging party must show that the natural result flowing from the operation described in the earlier patent would result in the performance of the questioned function in the challenged patent. Here, it was equally if not more plausible that the previously patented system used conventional file names and locations to locate data files.

THE OBVIOUS LESSON

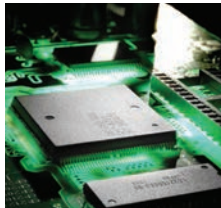
A party must satisfy a high standard to rely on inherency to establish obviousness that invalidates a patent. The court's ruling reinforces this standard. ▣





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