



IDEAS ON INTELLECTUAL PROPERTY LAW



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Copyright's fair use defense

Court clarifies “transformative use” analysis

In a colorful copyright case involving iconic artists Prince and Andy Warhol, the U.S. Court of Appeals for the Second Circuit explained something that might seem obvious: Judges shouldn't attempt to play the role of art critics. That didn't bode well for the accused infringer, who had prevailed in the lower court.

THE CASE DEVELOPS

The case focuses on a 1981 photograph of Prince. The photographer, through her agent, licensed the photo to a magazine to use as an artist reference — the basis for an illustration that an unnamed artist would create and the magazine would publish. The artist was Warhol, known for his silkscreen portraits of celebrities.

Unbeknownst to the photographer, Warhol went beyond the magazine assignment and created additional works, which became known as the “Prince Series.” The works in the series were sold to third parties or sent to the Warhol Museum in Pittsburgh.

The photographer didn't discover the series until after Prince's death in 2016. She then notified The Andy Warhol Foundation for the Visual Arts (AWF), the current copyright holder in the “Prince Series,” of the perceived copyright violation. AWF regularly licensed the works for commercial use.

In 2017, the foundation sued the photographer, seeking a declaratory judgment that the “Prince Series” works constituted a fair use of her photograph. The trial court granted

summary judgment to AWF and dismissed the photographer's counterclaim for infringement. She appealed.

THE COURT GOES NEGATIVE

Under the federal Copyright Act, courts evaluating an assertion of fair use generally consider four non-exclusive factors:

1. The purpose and character of the use of the copyrighted work, including whether it's of a commercial nature or for nonprofit educational purposes,
2. The nature of the copyrighted work,
3. The amount and substantiality of the portion used compared with the copyrighted work as a whole, and
4. The effect of the use on the potential market for or value of the copyrighted work.

The first factor assesses the extent to which the secondary work is “transformative” — whether it adds



A BETTER WAY TO ANALYZE FAIR USE?

Two judges of the U.S. Court of Appeals for the Second Circuit concurred with the court’s decision in *Warhol*. (See main article.) But they also proposed a different approach to the fair use analysis.

The judges highlighted what they regard as an overreliance on “transformative use” and suggested a renewed focus on the fourth fair use factor: the effect of the use on the potential market for or value of the copyrighted work.

They noted a recent study examining 238 district and appellate court rulings on the fair use question. It found that whether the work in question was deemed transformative correlated with the ultimate fair use determination 94% of the time.

The judges acknowledged that the majority opinion in *Warhol* properly recognized the harm to the potential licensing markets for the original work and its derivatives. But they stressed that a focus on the fourth factor would better serve the purpose of copyright — stimulating creativity among potential authors by allowing them to earn money from their creations.

something new, with a further purpose or different character, changing the original with new expression, meaning or message. Examples of transformative uses include criticism, comment, news reporting, teaching, research and parody.

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The trial court concluded that the “Prince Series” works were transformative because they could “reasonably be perceived to have transformed Prince from a vulnerable, uncomfortable person [as portrayed in the original] to an iconic, larger-than-life figure.” The appellate court disagreed.

It explained that a judge shouldn’t assume the role of art critic to try to ascertain the intent behind or meaning of the works at issue. Rather, the judge must determine whether the use of the original work is for a fundamentally different and new artistic purpose and character. At a bare minimum, the court

said, the secondary work’s purpose and character must comprise something more than the imposition of another artist’s style on the primary work.

The Second Circuit found that the overarching purpose and function of the works here were identical — they’re portraits of the same person. Moreover, Warhol created his series chiefly by removing certain elements (such as depth and contrast) from the original photo and embellishing the flattened images with “loud, unnatural colors.” But the series retains the essential elements of the photo without significantly adding to or altering them.

Warhol’s modifications primarily magnified some elements of the photo and minimized others. Although this may give a different impression of Prince, the photo was still the recognizable foundation for the series.

PHOTO FINISH

The Second Circuit found that the three remaining factors also favored the photographer, defeating AWF’s fair use defense, and that the works at issue were substantially similar. Given that Warhol based many works on photos of celebrities, AWF could face similar lawsuits in the future. ▣

Alice strikes again

Targeted advertising is patent-ineligible

The U.S. Court of Appeals for the Federal Circuit has dispatched yet another patented invention to the wasteland of patent-ineligible abstract ideas under the *Alice* test. The court's ruling reaffirmed that targeted advertising can't be patented.

AD TECH TRIGGERS LAWSUIT

Free Stream Media Corporation (doing business as Samba) sued Alphonso Inc. for infringing a patent related to providing mobile phone users with targeted advertisements based on data gathered from their smart televisions. In addition to involving a mobile device and smart TV, the patent uses a "relevancy matching server."

The patent also encompasses the ability to communicate between the mobile device and smart TV by bypassing the "security sandbox" on the mobile device without user intervention. Security sandboxes generally prevent apps from accessing the data of other apps.

Alphonso filed a motion to dismiss, asserting that targeted advertising is a patent-ineligible abstract

idea. The trial court disagreed, finding that the patent didn't cover the abstract idea of tailored advertising. Rather, it said, the patent was for "systems and methods for addressing barriers to certain types of information exchanged between various technological devices," such as a tablet and smart TV being used at the same time in the same place. Alphonso appealed.

PATENT MISSES THE MARK

The U.S. Supreme Court has established the *Alice* test, a two-step test for identifying patents that cover patent-ineligible concepts. Under the *Alice* test, the court first determines whether the claimed invention is directed to a law of nature, a natural phenomenon or an abstract idea that isn't integrated into a practical application. If so, it then determines whether the invention includes an "inventive concept" that transforms it into a patent-eligible application of the concept.

On appeal, the Federal Circuit found the patent was ineligible under the test's first step. Among other problems, the patent didn't describe any



specific manner by which a mobile device's security sandbox is bypassed; it merely described the result of bypassing the sandbox.

The court found nothing that constituted an actual improvement to a technology or a computer's functionality — as opposed to an improvement to targeted advertising. The ability to pierce a mobile device's sandbox, it said, simply used a computer to achieve the abstract idea of providing targeted advertising.

The trial court didn't address the test's second step. On appeal, though, Samba argued that the patent permitted "the new and unconventional operation of mobile devices and televisions" by facilitating communication despite the mobile device's security sandbox.

But the court found nothing inventive in the patent that wasn't previously possible. The patent, it said,

just described the use of generic features and routine functions to implement the underlying abstract idea.

The "work-around" features for bypassing the security sandbox also weren't inventive, according to the court. They weren't the kind of additional features that provide practical assurance that the patent is anything more than an attempt to monopolize the abstract idea itself.

The Federal Circuit concluded that Samba failed to demonstrate the patent covered a patent-eligible invention. It therefore reversed the trial court's denial of Alphonso's motion to dismiss.

DON'T PHONE IT IN

Abstract ideas continue to face an uphill battle when it comes to patent eligibility. A carefully crafted application is essential if a patent is to survive a challenge. ▣

When is initial-interest confusion trademark infringement actionable?

A trademark battle between sellers of adjustable air mattresses led the U.S. Court of Appeals for the Eighth Circuit to put to bed the question of whether it recognizes a trademark infringement theory already accepted by most federal courts of appeal. More than a decade after sidestepping the question, the court confirmed that it views initial-interest confusion as a valid basis for liability.

DISTRICT COURT SAYS "GOOD NIGHT" TO CLAIM

The plaintiffs own trademark registrations for their mattress products. They alleged the defendants used similar and identical marks in various online advertising formats to divert consumers to the defendants' website and call center.

Before trial, the trial court rejected an infringement theory based on initial-interest (or pre-sale) confusion — that is, confusion that creates initial customer interest, even though no actual sale results from the confusion. At trial, the court instructed the jury that infringement liability required a showing of likelihood of confusion at the time of purchase. The jury rejected the infringement claims based on that instruction and the plaintiffs appealed.

APPELLATE COURT LAYS DOWN THE LAW

The Eighth Circuit began its analysis by noting that most federal courts of appeals that have considered the legitimacy of the initial-interest theory of infringement liability have recognized it. The theory

acknowledges that a trademark owner's goodwill holds value at all times, not just at the time of purchase.

The theory, the court went on, protects against the threat of a competitor getting a free ride on the back of an established mark's goodwill — for example, when a consumer incorrectly infers a third party's affiliation with the owner of the established mark. At least one federal court of appeals has equated initial-interest confusion to a “bait and switch” scheme.

Initial-interest confusion acknowledges that a trademark owner's goodwill holds value at all times, not just at the time of purchase.

But the Eighth Circuit hadn't yet definitively weighed in on whether confusion must exist at the time of purchase to support a trademark infringement claim, or if initial confusion is sufficient. In an earlier case, the Eighth Circuit had acknowledged the question, but neither adopted nor rejected the initial-interest confusion theory. Instead, it held that the theory didn't apply to the case because the relevant consumers were sophisticated commercial purchasers of the goods at issue.

In this case, however, the Eighth Circuit took the opportunity to clarify that the theory may be viable in the jurisdiction in certain circumstances. Specifically, it held that, when a jury question exists as to whether the consumers were sophisticated, a plaintiff shouldn't be prohibited from proving initial-interest confusion.

As the court observed, legal authorities are mixed about whether mattress shoppers

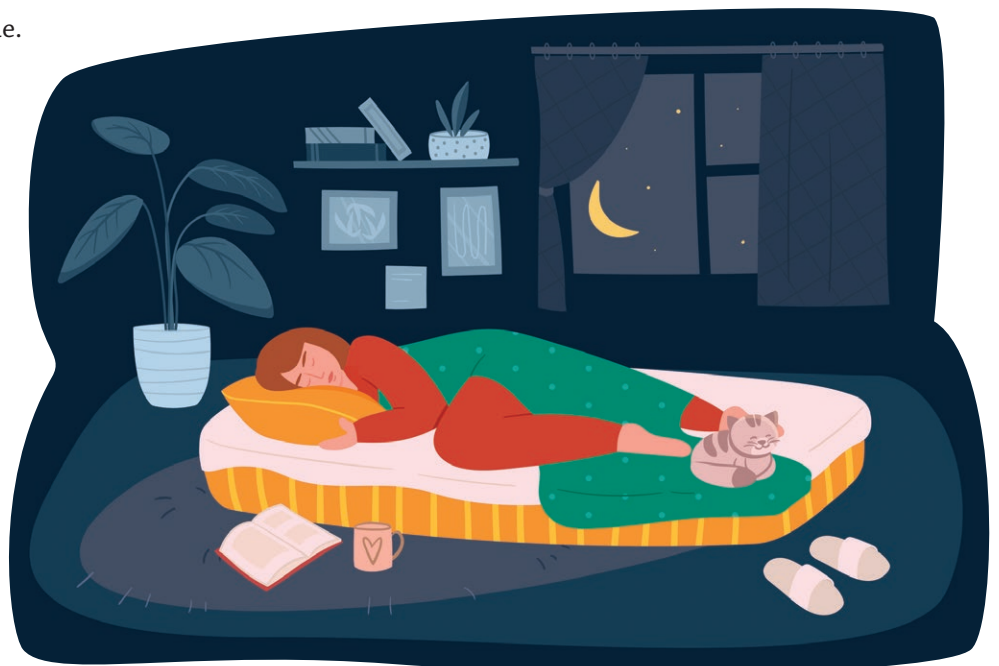
and online shoppers should be deemed careful, sophisticated consumers. For instance, one court has found that mattress shoppers exercise a high level of care; another has found that, because mattresses are infrequent purchases, consumers enter the marketplace uneducated and vulnerable to brand confusion.

Similarly, courts have found that “surfing” online when shopping leaves one susceptible to confusion. Others believe online shopping provides for illuminating exploration of options.

The court therefore concluded that a jury question existed about the issue of consumer sophistication, making the pre-trial dismissal of the initial-interest confusion infringement claim improper. For the same reasons, the court held that the jury instruction requiring confusion at the time of purchase was incorrect. It reversed and vacated the infringement judgment and sent the case back to the trial court for further proceedings.

THE COURT HITS SNOOZE

Although the court left no doubt as to the viability of an initial-interest confusion claim in the Eighth Circuit, it also took care to limit its holding. It made no comment on how such confusion might affect the analysis of remedies and damages. □



Establishing “actual use” standard in service mark infringement cases

The U.S. Court of Appeals for the Tenth Circuit recently faulted a lower court for applying the wrong legal standard when determining whether the plaintiff had used the service mark in an infringement case. The result revived a lawsuit over a bank’s trademark for a mobile app.

VIRTUALLY IDENTICAL MARKS

Erik Underwood registered a service mark in Georgia on “E.R.I.C.A.” for a computer-animated woman who verbally tells the news through cell phone and computer applications. Bank of America Corporation (BoFA) owns a registered federal trademark for a mobile banking application known as “ERICA.”

Underwood sued BoFA for infringing his mark, and BoFA counterclaimed to cancel Underwood’s Georgia registration. The court ruled in BoFA’s favor on both claims and Underwood appealed.

THE STANDARD TO ACTUALLY USE

To acquire a protectable interest in a mark under Section 43(a) of the Lanham Act, a person must make bona fide use of it in commerce. A service mark is used in commerce when: 1) it’s used in the sale or advertising of services, and 2) the services are rendered in commerce.

Actual use in the market to identify and distinguish its services is one way a plaintiff can demonstrate sufficient use to establish a protectable interest. The trial court found that Underwood hadn’t shown actual use because no customers had purchased goods or services offered under the mark, and he hadn’t generated any revenue from the mark.

The appellate court disagreed with this analysis. A service mark is used, the court said, when the service provider benefits third parties, regardless of its reason for providing services.



The trial court also limited the services at issue to those listed in the Georgia state registration. The appellate court found that it should have considered the entirety of the search engine and personal assistant services Underwood claimed to offer on his website.

To establish a protectable interest based on actual use, the court of appeals said, Underwood needed to establish that:

- His website was publicly accessible before BoFA filed for federal trademark registration,
- Search engine and personal assistant services on the site were “rendered to others” before that date, and
- The E.R.I.C.A. mark on the site clearly identified and distinguished the services offered there.

The trial court failed to consider whether Underwood had done so.

ANSWER NOT FOUND

It’s not over yet. The appellate court didn’t rule on whether Underwood had established the necessary evidence, instead returning the case to the district court to address. □



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