Intellectual Property

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In This Bulletin

FENWICK & WEST LLP

The Trouble With Sharing

BY JENNIFER STANLEY AND DAVID MARTY

Copyright co-ownership is a well-established method of allocating rights within the software, recording, and motion picture industries. In theory, it presents a clear and simple arrangement and provides a strong degree of independence for each of the co-owners.

By way of quick review: The default relationship between co-owners of a copyright is a tenancy in common. Each co-owner can operate independently in using the work, enforcing the copyright, and transferring her interest, subject only to a duty of accounting (which can be waived by contract). Thus, if two musicians collaborate on a song, they become co-owners of the copyright, each possessing an equal share in the copyright. Each musician can independently exercise all of the exclusive rights as to the song. Likewise, each can independently enforce the copyright against an infringer. And each could transfer or assign her entire interest in the work to a third party without obtaining the consent of the co-owner.

For all its popularity and accessibility, though, copyright co-ownership can be a fraught arrangement. Perhaps the most familiar complication for copyright co-owners derives from the Ninth Circuit's widely criticized decision in *Sybersound Records, Inc. v. UAV Corp.*, 517 F.3d 1137 (9th Cir. 2008). As discussed in a previous article, the *Sybersound* court effectively invalidated an entire genre of copyright assignment that had been —and remains—widely used by copyright co-owners: namely, the practice whereby one co-owner transfers a sub-divided portion of her rights to a third party. See, *e.g.*, Brian W. Carver, *Think You Are a Co-Owner of a Copyright?—Think Again,* Copyright Alert (June 16, 2008).

The most recent complication for co-owners, however, arises from *Minden Pictures, Inc. v. Pearson Education, Inc., 2013 WL 812412 (N.D. Cal. March 05, 2013)*. In *Minden,* the court invalidated over 4,000 identical copyright assignment agreements that had purported to grant co-ownership rights, on the grounds that, in substance, the assignments had transferred nothing more than the bare right to litigate the copyright—which is not a right at all.

The bases for invalidation between *Sybersound and Minden* are somewhat distinct. But the result in each case looked the same: Plaintiffs who thought they were co-owners with standing to sue learned that they did not own anything enforceable at all. *Minden* thus presents a reminder and an opportunity for copyright co-owners to pause and take stock of the rights they think they hold.

Minden Pictures v. Pearson Education

The *Minden* decision fundamentally addresses and reinforces the rule that a copyright holder cannot select a third party to bring suit on his behalf. Even a party that obtains co-ownership rights in the copyright—as Minden attempted to do—will not have standing to enforce the copyright if it is apparent that the co-ownership transaction was orchestrated solely to facilitate litigation.

The plaintiff in *Minden* was a stock photography agency that represented independent photographers and obtained rights to their photographic works through agency agreements. Upon obtaining licensing rights through the agency agreements, Minden would license the photographs to publishers. Amongst those publishers was defendant Pearson Education, which used thousands of Minden's licensed photographs in educational textbooks.

Minden eventually came to believe that Pearson Education had been willfully overstepping the limitations of its licenses by publishing more copies of the images than the license actually permitted. All told, Minden believed that Pearson had infringed over 4,257 works to which Minden held rights. Consistent with its enforcement model, Minden obtained copyright co-ownership assignments from the relevant photographers, and then brought suit.

The trouble for Minden, as defendant Pearson eventually realized, was that the language of the copyright assignments, by which Minden purported to obtain co-ownership and standing to sue, appeared inconsistent with a full grant of co-ownership rights. The full text of the assignments read as follows:

> The undersigned, the sole owner of the copyrights in the undersigned's images (the Images) selected by Minden Pictures, Inc. (Agency) and included in its collection, hereby assigns to agency co-ownership of all copyrights in the Images. This assignment authorizes Agency, in its sole discretion, to present, litigate and settle any accrued or later accruing claims, causes of action, choses in action — which is the personal right to bring a case — or lawsuits, brought by Agency to address unauthorized uses of the images by licensees of Agency, as if Agency were the undersigned. Agency agrees to reassign its co-ownership of the Images back to the undersigned immediately upon the conclusion of such litigation.
>
> Any proceeds obtained by settlement or judgment for said claims shall, after deducting all costs, expenses, and attorney's fees, be divided as provided in the Photographer's Agency Agreement.

Significantly, the assignments did not articulate or discuss any specific exclusive rights that Minden obtained by virtue of the co-ownership transfer. Instead, the assignments simply described the various ways in which Minden would be permitted to enforce the copyrights. Further, the assignments required Minden to re-assign its interests back to the photographers upon the conclusion of litigation and contemplated a sharing of litigation proceeds between Minden and the photographer.

The problem with this arrangement is the well-established rule from *Silvers v. Sony Pictures Entm't, Inc.* that prohibits copyright holders from selecting third parties to bring suit on their behalf. 402 F.3d 881, 890 (9th Cir. 2005) ("The bare assignment of an accrued cause of action is impermissible under [Section] 501(b).") While the copyright assignment purported to transfer full co-ownership rights, it certainly seemed plausible, from the face of the agreement, that those co-ownership rights had been granted solely to disguise the real intent of the agreement, which was simply to allow Minden to enforce the copyright and nothing more.

Whether this intrinsic evidence alone would have been sufficient to invalidate the assignments is unclear, because the court chose to admit extrinsic evidence on this point. Amongst that evidence was: (1) The fact that Minden only sought these copyright assignments immediately prior to litigation; (2) That no consideration appeared to have been given for the assignment; and (3) A statement from the founder of Minden Pictures, describing the agreements as transferring rights "solely for actions or lawsuits."

Minden insisted that, despite contemplating litigation, the assignment unambiguously transferred co-ownership status. But the court disagreed, holding the "nature of the rights conveyed by an agreement is governed by the substance of what is given, not the label that the parties put on an agreement." *Minden,* 2013 WL 812412, at *5. All available evidence indicated that the copyright assignments had been orchestrated to transfer a bare right to sue, and therefore, under *Silvers*, had transferred nothing at all to Minden.

Courts have been consistently enforcing the *Silvers* rule against plaintiffs whose standing appeared based on a disguised bare right to litigate. The *Silvers* rule has garnered particular attention recently in the high-profile Righthaven copyright suits. See, *e.g.*, *Righthaven LLC v. Democratic Underground, LLC,* 791 F. Supp. 2d 968 (D. Nev. 2011). *Minden,* however, presents the first instance where a transfer of co-ownership rights was invalidated – and with relatively little evidence of mal-intent on the face of the assignment.

The lesson for copyright litigants is clear: Courts take the *Silvers* prohibition seriously and are willing to look past the language of any agreement to discern the real substance of what was transferred and whether that transfer violates *Silvers.* The lesson for copyright co-owners is specific: If your co-ownership rights were granted just to enable your enforcement of a copyright, you probably do not have any rights at all.

Surprising Appetite in Washington for New Federal IP Legislation

BY STUART P. MEYER

On March 16, 2013, the most significant provisions of the America Invents Act (AIA) came into force. The AIA was seen as the most extensive alteration to U.S. patent law in half a century, and was hotly debated over nearly a decade. The changes under the AIA were in some ways fundamental to our patent law, moving us from a system in which the first to invent deserves a patent to the system used in the rest of the world in which the winner of a patent is the first inventor to file a patent application. Particularly in view of the other issues commanding the attention of Congress, commentators suggested that IP issues were not likely to rise to prominence again anytime soon. Those commentators were wrong.

It appears that the stage is set for further major revisions to U.S. patent law in the coming year. In addition, there is a serious call in Congress for a major overhaul to copyright law. There is even a strong push, both from Congress and the Obama administration, to enact a new federal trade secrets act allowing a civil private right of action (currently addressed almost exclusively by state law). These proposals are not just minor technical amendments to a current statutory scheme. They represent instead an interest in fundamentally rebalancing the *quid pro quo* on which each of these IP protections is based.

The proposal for patent reform is perhaps the most surprising given the recency of the AIA's enactment. A number of separate patent reform attempts were started during the Spring of 2013.

A proposal by House Judiciary Committee Chair Bob Goodlatte and Senate Judiciary Committee Chair Patrick Leahy was circulated in late May, primarily to address abusive tactics often associated with "patent trolls." The proposal, styled as a House bill, was quite detailed, coming in at 38 pages. One section provides incentives to settle litigation lawsuits through an award of attorney fees and costs to a prevailing party that offered to settle the case before trial. Another requires transparency in identifying all parties that have a financial interest in a patent; nonpracticing entities often seek to obfuscate ownership for various reasons. Other provisions relate to ownership (including parent companies) and licensing history of patents, again to increase transparency as to the parties who may already have benefits relating to the patents. The draft includes a protection for customer end users as well via a stay requirement, where a patent relates to a product and the patent owner chooses to sue a user of the product rather than its manufacturer. Related provisions call for various studies and public education efforts. One is a study of "asymmetries in discovery burdens and costs," with an obvious view toward limiting the cost of litigation for infringement defendants; another looks to analyze patent transactions, quality, and examination. A provision calls for enhanced education for small businesses regarding patent exposure. There are also some "improvements and technical corrections" to the AIA, at least some of which may be significant changes; for instance, the manner in which patent claims are to be construed in the new PTO procedures (*i.e.,* post-grant and *inter partes* reviews).

Senator John Cornyn of Texas provided a previous proposal along somewhat similar lines, called the Patent Abuse Reduction Act. The approach taken in Senator Cornyn's bill includes a heightened pleading requirement, with a claim-by-claim identification of each "accused instrumentality" (method, system process, etc.), detailing where each element of each asserted claim is found within the accused instrumentality. Like the Goodlatte/Leahy proposal, there is also a requirement to identify licenses pertaining to asserted patents and ownership interests in the patents. This proposal also includes settlement, joinder, and discovery provisions, again intended to limit defendants' exposure in addressing infringement claims. A previous proposal called the SHIELD Act (fully, the "Saving High-Tech Innovators from Egregious Legal Disputes Act"), introduced in February by Representatives Peter DeFazio and Jason Chaffetz, would have had "loser pays" provisions only for nonpracticing entities.

Representative Ted Deutch of Florida sponsored another bill, also in May, called the "End Anonymous Patents Act" that is solely intended to increase transparency as to patent ownership. Senator Charles Schumer's proposed bill, again introduced in May, seeks to expand the reach of the additional level of review for "covered business method patents" that he secured as part of the AIA. Under that program, the level of review available for most patents for the first nine months after they are granted is expanded for certain types of patents to last for their entire lifetimes. In early June, Representative Steven Chabot of Ohio introduced legislation, HR 2236, to expand the definition of a "microentity" under patent law to increase the number of startup companies that could qualify for drastically reduced PTO fees.

For context, these various proposed bills emanated from Congress before the Obama administration's very public push on June 4 to address abuses by "Patent Assertion Entities" (expressly equated in the administration's report with the typically pejorative term "patent trolls"). The 17-page report, entitled "Patent Assertion and U.S.

Innovation," proposes a host of reforms, ranging from heightened PTO examination standards to reducing the "disparity of litigation costs between patent owners and technology users." The report also suggests looking for ways to increase the "adaptability of the innovation system to challenges posed by new technologies and new business methods." The proposed bills have come at about the same time that action at the state level is increasing. Attorneys general in several states have been studying abusive tactics by trolls, and Vermont's attorney general filed a consumer fraud lawsuit in May against one patent holder for its widespread enforcement activity. At nearly the same time, Vermont enacted legislation expressly aimed at addressing "bad faith patent assertions."

On the copyright side, activity has been somewhat more consolidated, but no less intense. House Judiciary Committee Chair Goodlatte, before turning his attention to the patent bill discussed above, stated that he will be holding hearings on whether new copyright legislation is called for. Many have advocated for such legislative reform, in view of various advances in technology, as well as the seemingly cumbersome process of addressing unauthorized music sharing and video streaming by individuals through conventional federal court litigation. The Digital Millennium Copyright Act (DMCA) appeared in 1998 based on studies done several years before that, well before many of the technologies now in widespread use for distribution and delivery of copyrighted works were invented. Congress has already begun work in this direction; a House subcommittee scheduled a hearing on HR 1123 on June 6, 2013, regarding amendments to the DMCA to permit consumers to unlock cell phones without approval from their cellular carriers (such attempts might otherwise obviate technical protection measures in violation of the DMCA). There is no publicly disclosed general agenda available for this round of copyright reform, but the range of issues is vast; for instance: the legality of online radio and television technologies; reducing the duration of the copyright term and the amounts available as "statutory damages;" and, creating a small claims court to resolve, for instance, infringement complaints brought by individuals against unauthorized use of their materials online (or perhaps those brought by music companies and movie studios against individuals).

Given the developments in case law and business practices over the past decade, it is widely expected that any such reform efforts in Congress will be met with intense lobbying efforts from both the entertainment industry and the technology sector. Just as the AIA was nearly a decade in the making, the next revision to our copyright law may likewise take many years to engineer. There are numerous signs, however, that Congress intends to start this process.

The trade secret has traditionally been the poor cousin of the constitutionally supported patent and copyright. Although federal trade secret legislation has been in place for some time, both via the Economic Espionage Act and the Computer Fraud and Abuse Act, there has been no federal counterpart to the Uniform Trade Secrets Act, the model law around which most states have formulated their trade secrets statutes. Some significant disadvantages stem from trade secrecy being protected primarily by state law. For instance, it is difficult for the United States to negotiate minimum trade secrecy standards in treaties with other countries when there is no corresponding federal law. It is also sometimes quite difficult, as a practical matter, to bring certain trade secret misappropriation lawsuits against foreign entities under state law, as some service, discovery, and other procedures are difficult if not impossible to employ in the various state court systems.

Last summer, Senators Herb Kohl, Chris Coons, and Sheldon Whitehouse introduced the Protecting American Trade Secrets and Innovations Act (PATSIA, S.3389). This proposed legislation would have added a private right of action under federal law for trade secret misappropriation under certain circumstances. Although PATSIA died with the close of the 112th Congress, it appears poised to reappear fairly soon.

Both Congress and the Obama administration have been closely watching trade secrecy cases involving foreign entities, most notably those bearing some connection with China. In February, the office of the IP Enforcement Coordinator (IPEC) issued a detailed report entitled, "Administration Strategy on Mitigating the Theft of U.S. Trade Secrets." One of the primary recommendations of the IPEC report was improved domestic legislation. Two pieces of legislation from 2012 were highlighted as steps in the right direction. The Theft of Trade Secrets Clarification Act, S. 3642, closed a loophole in the Economic Espionage Act by expanding its scope to cover not only products, but also services and related activities. The Foreign and Economic Espionage Penalty Enhancement Act of 2012, H.R. 6029/S. 678, increased criminal penalties for economic espionage.

In addition to the report, IPEC opened a comment period in March and April 2013 seeking input on "existing laws related to the enforcement of trade secrets to determine if legislative changes are needed to enhance enforcement." 78 Fed. Reg. 16875 (March 19, 2013). The comments that

IPEC received referred extensively to PATSIA and the need to consider addition of a federal civil cause of action for trade secret appropriation. Numerous reasons were given for supporting such a statute. Some commentators noted that those suffering from such misappropriation were in the best position to bring actions against it. Others observed that the federal government has brought relatively few criminal actions, and only in selected areas, so the criminal provisions have proven insufficient–particularly in cases where foreign actors are involved.

The tone of the IPEC Report was reinforced by the U.S. Trade Representative's most recent Special 301 Report, issued in early May. The Special 301 Report emphasized the importance of enforcing trade secret rights, and devoted a separate section just to this topic, noting, "This year's Special 301 Report reflects increased emphasis on the need to protect trade secrets." The IPEC Report's call to improve domestic legislation was repeated in the Special 301 Report.

This is not the first time that a federal civil trade secrets provision has been suggested. Several academic and other writers have proposed such legislation for decades. However, it is only recently that the federal government has seriously addressed addition of a private civil cause of action for trade secret misappropriation, similar to that available for patents and copyrights.

IP issues are often overwhelmed by more pressing issues in Congress. It may be that none of these initiatives gets very far in the near term. However, the fact that Congress and the Obama administration are both actively seeking legislative solutions in ongoing patent, copyright, and trade secrecy areas is remarkable. We will be following the developments closely and reporting on them in future issues of the INTELLECTUAL PROPERTY BULLETIN.

Quick Updates

Federal Circuit Undecided About Whether Software is Patentable?

Patent holders, inventors, and even the courts have recently struggled with the limits of what can be patented. The patentability of software, widely accepted for decades, has lately been questioned. The scope of patentability is controlled by 35 U.S.C. § 101, which allows patents for any "new and useful process, machine, manufacture, or composition of matter." Judges have created exceptions to § 101 for laws of nature, natural phenomena, or abstract ideas. Courts have recently struggled to define a test for when a patent claims "abstract ideas," and, as a result, the patentability of software has been called into question. When the Federal Circuit granted an *en banc* petition in *CLS Bank v. Alice Corp.,* many had hoped that the question of whether software is patentable would be put to rest. 2013 U.S. App. LEXIS 9493 (May 10, 2013).

Alice owned several patents covering a computerized trading platform for exchanging obligations in which a trusted third party settles obligations between a first and second party so as to eliminate "settlement risk." Settlement risk is the risk that only one party's obligation will be paid, leaving the other party without its principal. Alice asserted system, method, and computer-readable storage medium claims against CLS Bank. The district court relied on *Bilski* and ruled the patents invalid under § 101 because they covered "abstract ideas." *Bilski v. Kappos,* 130 S. Ct. 3218 (2010). The three-judge appellate panel reversed, holding that claims were patentable.

The Federal Circuit granted an *en banc* hearing and requested briefing on two issues: (1) The test to determine whether a computer-implemented invention is a patent-ineligible "abstract idea;" and (2) Whether the test varies based on the type of claim (such as a method, system, or computer-readable storage medium). The resulting decision, however, does not provide a definitive answer for either issue. The court issued seven opinions with strikingly different reasoning. A majority of the judges held the method and computer-readable storage medium claims invalid, but there was no majority consensus on the system claims. Furthermore, there was no majority agreement on what is the proper test for determining whether claims are invalid under § 101.

The result of the various opinions in *CLS Bank* is that, on appeal, the patentability of a software patent will vary with the specific composition of the appellate panel. The Federal Circuit's inability to decide on a test for patentability of software may increase the likelihood that the Supreme Court grants *certiorari.* As Judge Kimberly A. Moore stated, "[t]his case presents the opportunity for the Supreme Court to distinguish between claims that *are* and *are not* directed to patentable subject matter." 2013 U.S. App. LEXIS 9493, at *125.

In the last few years, the Supreme Court has taken several cases involving the scope of § 101: *Bilski, Mayo, (Mayo Collaborative Servs. v. Prometheus Labs., Inc.,* 132 S. Ct. 1289 (2012)), *Ultramercial (WildTangent, Inc. v. Ultramercial, LLC,* 132 S. Ct. 2431 (2012)), and *Myriad (Ass'n for Molecular Pathology v. Myriad Genetics, Inc.,* 2013 U.S. LEXIS 4540 (June 13, 2013)). None of those cases, however, have directly addressed the patentability of software. *Bilski* dealt with business method patents, *Mayo* with pharmaceutical patents, and *Myriad* with gene patents. The Supreme Court had the opportunity to address the patentability of software in *Ultramercial,* but merely remanded the case to the Federal Circuit to reconsider the case in light of *Mayo.*

Alice's petition for *certiorari* is due in early August. Generally, the Supreme Court may grant *certiorari* to address the substantive issues or to remand in light of recent precedent (as in *Ultramercial*). Given the Federal Circuit's inability to agree upon a standard, a remand of *CLS Bank* to the Federal Circuit may be pointless. A grant of *certiorari,* then, may signal the Supreme Court's desire to provide a substantive opinion on the patentability of software.

Legalizing "Hack-Back" Trade Secret Protections

Continuing the momentum for nationwide legal reform in response to recent high-profile international trade secret thefts, a panel of leading foreign policy and business experts issued a report last month calling for significant executive and legislative policy reforms – including enactment of a federal trade secrets statute (as discussed in the article above) and legalization of the right to "hack back."

In its report, the Commission on the Theft of American Intellectual Property emphasized the considerable impact of intellectual property theft on the American economy. Not only are American companies losing hundreds of billions of dollars per year in earnings, but such theft is also undermining incentives for innovation. The Commission concludes that current methods for combating international trade secret theft, including World Trade Organization dispute resolution and bilateral government negotiations, are too time-consuming to satisfy the needs of companies whose products have rapid product life and profit cycles. Nor have these remedies imposed sufficient costs on trade secret perpetrators to outweigh the significant competitive advantages to be gained by stealing the innovative efforts of others.

The Commission recommends a multi-tiered strategy, both short-term and long-term, for reducing trade secret theft. It calls for greater involvement by the executive branch, designation of the National Security Advisor as the principal policy coordinator for all actions on the protection of American IP, and fortification of the International Trade Commission's enforcement procedures to prevent the importation of counterfeit goods from abroad, and it suggests that IP theft be included in mandatory disclosures required by the Securities and Exchange Commission. With respect to legislative reform, the Commission recommends that Congress amend the Economic Espionage Act (EEA) to provide a federal private right of action to sue for damages associated with trade secret theft, and designate the Federal Circuit as the appellate court for all matters brought under the EEA. Over the longer term, the Commission recommends greater diplomatic efforts and institution-building in priority countries (such as China, India, and Russia) to change legal norms regarding IP rights.

Lastly, with respect to cybersecurity, the Commission recommends that Congress should consider legislative reform to allow American companies and individuals the right to counterattack against IP thieves. Such methods might include surveillance activities, activation of malware in hackers' networks, and destruction of hackers' computers. The Commission also suggests legalizing a limited right to "hack back" to retrieve stolen electronic files or to prevent the exploitation of stolen information, as long as doing so would not damage the intruder's own network. Acknowledging that such counteroffensive measures are currently illegal under the Computer Fraud and Abuse Act and under international laws, in large part due to the risk to innocent third parties' computers and networks, the Commission nevertheless concludes that such measures are necessary deterrents.

A Victory for the DMCA Storage Safe Harbor; a Pyrrhic Victory for Veoh

The Ninth Circuit ruled recently that the safe harbor provisions of the Digital Millennium Copyright Act (DMCA) shielded a video-sharing website from copyright infringement liability. In *UMG Recordings, Inc. v. Veoh Networks, Inc.,* the court affirmed the decision of the United States District Court for the Central District of California, granting summary judgment for Veoh after concluding that it met the requirements outlined in 17 U.S.C. § 512(c). 2013 U.S. App. LEXIS 5100 (9th Cir. March 14, 2013). The court agreed with the Second Circuit's opinion in *Viacom Int'l v. YouTube, Inc.,* 676 F.3d 19 (2d Cir. 2012), in rejecting Universal Music Group's (UMG) arguments that the DMCA safe harbor did not apply.

Although Veoh's video-sharing program on its website had procedures to combat copyright infringement, users were able to download protected material without consent of the copyright holder. The prevalence of this practice prompted UMG to bring direct and secondary copyright infringement claims against Veoh as well as secondary liability claims against three Veoh investors. Veoh succeeded in a similar battle against a publisher of adult films in 2008 in another case . See *e.g.* Mitchell Zimmerman, Io v. Veoh – *DMCA Covers Video Upload Site Charged With Exposing Skin Flicks,* Fenwick Copyright Alert (September 2008).

In response to UMG's allegations, Veoh raised an affirmative defense based on the DMCA's safe harbor provisions, which protect service providers from liability if, among other things, they: (1) Lack actual or constructive notice of the infringing activity; (2) Act expeditiously to remove infringing material upon learning of its existence; and (3) Do not receive a financial benefit directly attributable to the activity. Reviewing the district court's grant of summary judgment, the Ninth Circuit rejected UMG's claim that the safe harbor provision was inapplicable because the alleged infringement was not "by reason of the storage [of material] at the direction of a user," the threshold requirement for 512(c) protection.

After concluding that the safe harbor provisions pertained to Veoh's service, the court next examined whether Veoh had knowledge of the alleged infringement that would negate any protections afforded by the DMCA. Although the parties agreed that Veoh acted promptly to remove infringing material listed in takedown notices, UMG alleged that Veoh had knowledge of other infringing videos that it did not remove. The court held, however, that UMG failed to create a genuine issue of material fact that Veoh had either actual or "red flag" notice of the infringement, concluding that hosting of copyrightable material and awareness of the potential for infringement does not constitute knowledge. The court also declined to place the burden on service providers to police their websites for possible infringement, instead requiring copyright holders to perform this task.

This decision ends a long and complicated saga between Veoh and UMG, settling the question of responsibility for policing websites for potential infringement. However, the victory came too late for Veoh, which filed for bankruptcy and was liquidated as a result of its legal battles. Despite Veoh's demise, the court's holdings will serve as words of warning to service providers to act scrupulously to comply with safe harbor requirements and to copyright holders to consider these requirements when making infringement claims.

Revisiting Generic Top-Level Domains

As expected, there has been great initial interest in generating the new generic top-level domains, or gTLDs, that are poised to add variety to the conventional .com, .org, and .net domains that have dominated the Internet for decades. ICANN, the agency architecting the domain system, reports that as of June 7, 2013, it had approved 638 of the new gTLDs. Yet, at the same time, some companies are choosing to abandon their gTLD applications rather than pioneer this new area. While some might cite the significant economic cost and management effort in migrating business plans beyond the .com world, there may be something more fundamental going on.

In short, the value of domains to businesses and other organizations may have peaked; and, in particular, the value of gTLDs may not be nearly what was anticipated in the years leading up to the gTLD introduction. Few would doubt that no matter how many gTLDs go live, .com will remain king. Prior challengers such as .pro and .mobi have failed to displace the venerable .com, and there is no reason to think any new domain will fare better.

More fundamentally, however, the future is not in domain names in any event. Few companies still feel the need to lay out their website URLs in great detail in their marketing materials. While ads in the late 1990s may have prominently displayed http://www.companyname/products to show how "internet-age" the company was, in 2013 most companies assume their customer base is facile in finding the company's web presence, and most companies have gone to great expense to ensure that search engines will drive customers to their site quickly and painlessly. The future is not in domain names for another reason, as well—the future is apps. Over a billion people currently use smartphones, and anyone with a smartphone has less and less need to access the Internet, via URL or otherwise. While apps can be obtained via websites, they often are downloaded via stores (which themselves are apps), QR codes, messaging apps, or otherwise. By one estimate, 70 billion apps will be downloaded in 2013, and the number of offerings available via Apple's App Store or Google Play is well over one million.

Direct access to the Internet using the domain system may fast be becoming the AM radio of the information age. The AM system was tolerated until better alternatives, such as FM, became available, giving the user more control and providing a more enjoyable overall experience. We should see, before too long, whether the gTLD expansion of the domain space will serve only to hasten the demise of the domain system. Once the domain space is cluttered with a thousand or more gTLDs, if the result is disinformation, misinformation, and fraud, consumers may rush even more quickly to a platform that they believe gives them more control and less noise.

FENWICK & WEST LLP

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Offices

801 California Street
Mountain View, CA 94041
Tel: 650.988.8500

555 California Street, 12th floor
San Francisco, CA 94104
Tel: 415.875.2300

1191 Second Avenue, 10th Floor
Seattle, WA 98101
Tel: 206.389.4510

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