Intellectual Property

2013 SUMMER BULLETIN

In This Bulletin

SOPA Didn't Die. It Just Became Soft SOPA.

By Andrew P. Bridges

January 2012 saw an explosion of controversy over two Internet-related bills that had been progressing through Congress: the Stop Online Piracy Act (SOPA) in the House, and the Preventing Real Online Threats to Economic Creativity and Theft of Intellectual Property Act (PROTECT-IP, further shortened to PIPA) in the Senate. While these bills ultimately were not enacted, some of their disconcerting features appear to be arising once again via enforcement efforts of the executive branch.

The SOPA-PIPA combination was the culmination of several years' worth of efforts by a coalition of intellectual property enforcers to beef up enforcement remedies against alleged Internet-based infringements. An earlier effort was the Combating Online Infringement and Counterfeits Act (COICA), which Senator Patrick Leahy introduced in 2010, but which died because of persistent opposition by Senator Ron Wyden. The new legislation, introduced in 2011, sought primarily to create new enforcement mechanisms and remedies against owners of websites accused of involvement in copyright and trademark infringement. Backers defined its targets as "foreign rogue websites," supposedly beyond the reach of normal U.S. enforcement activities. (In fact, the definition of "foreign rogue websites" excluded sites such as Sweden's Pirate Bay, which had never been brought to court in the U.S., while including foreign companies that had appeared in the U.S. to defend litigation.)

To reach these "rogue websites," the legislation aimed as follows:

1. To require Internet service providers to take measures to prevent their U.S. customers from reaching the websites by interfering with the domain name resolution process;
2. To require advertising networks to cut off advertising revenue of the websites by excluding them from advertising networks; and
3. To require payment processing companies to stop payment processing for merchants operating the websites.

In addition, the legislation added another, broader enforcement provision, namely, to raise to a felony the crime of unlawful public performance of copyrighted works.

The legislation had widespread, bipartisan support in Congress. PROTECT-IP had 42 sponsors (out of 100 senators); SOPA had 32 sponsors at its introduction, with more expressions of support. Moreover, the backers of the legislation published a very long list of organizations and companies that had expressed their support, including the Council of Better Business Bureaus, National League of Cities, U.S. Conference of Mayors, and American Bankers Association. The Motion Picture Association of America and the United States Chamber of Commerce were the most vocal champions of the legislation, often taking a lead role in arguing for its passage.

Public opposition to these bills from many quarters grew steadily at the end of 2011. In November 2011, on the date that the House Judiciary Committee held hearings on SOPA, a group of civil society groups, along with community-based Internet technology and service giants Mozilla and Wikipedia, proclaimed "American Censorship Day" as an event to launch broad public education and opposition to the bills. A group of prominent technology and Internet companies wrote Congress about their opposition to the legislation. A groundswell of opposition grew throughout November and December 2011.

In early January 2012 a wide variety of public interest groups and Internet-focused companies beat the drum loudly in protest of different aspects of the laws. Security technology officials delivered strong criticism of the domain-name measures of the legislation as undermining

FENWICK & WEST LLP

key security protocols. Others blasted overenforcement of intellectual property laws and the lack of due process in provisions. Yet others questioned the need for "foreign rogue website" legislation in light of many successful enforcement efforts against foreign websites under existing law. On January 14, 2012, the White House, in response to a petition, stated its objection to the legislation in its then-current form. It said: "We will not support legislation that reduces freedom of expression, increases cybersecurity risk, or undermines the dynamic, innovative global Internet."

Even Justin Bieber had weighed in against related legislation (a bill by Senator Klobuchar, which SOPA picked up as a provision) that would elevate streaming violations to a felony. Pundits noted that Bieber's career started with YouTube videos of him singing Michael Jackson songs. The proposed five-year felony punishment that Bieber have might received for streaming Michael Jackson songs was a year longer than the sentence Jackson's doctor received when convicted of involuntary manslaughter in the singer's death.

A group of major public interest groups and websites, including Mozilla, Reddit, and Wikipedia, coordinated an Internet "blackout" day to protest the legislation. On January 18, 2012, Wikipedia went "dark" and more than 100,000 other websites joined in, either by going dark or by featuring a protest on their front pages. Many websites used their front pages to instruct their users on how to contact their senators and members of Congress. Over 10 million voters contacted their members of Congress or signed petitions. I was on Capitol Hill that day and saw staffers throughout the Capitol looking shell-shocked at the extraordinary outpouring of protest calls and messages they received. They had not seen it coming.

Soon after the Internet blackout and the crush of public calls and emails to Congress, many members of Congress had a change of heart. Within one week of the blackout, nine senators and eight representatives formally withdrew their sponsorships of the respective bills; others who had expressed support started distancing themselves from the legislation. The defections appeared to come from both ends of the political spectrum, with the persistent residual support coming from the political establishment at the middle of both parties. The week after the protest, the Republican leadership in the House recognized the split in its own ranks over SOPA and sent word out that it would not bring the bill to a vote; the Senate cancelled a cloture vote on PROTECT-IP.

The public had risen up, a new political force appeared to have coalesced, and SOPA and PROTECT-IP reportedly became "toxic" issues for elected officials. Those who had opposed the legislation celebrated their "victory." They resolved to be on the ready to rise up again on similar occasions in the future.

Or so it seemed. It turns out that most of SOPA is now in effect as a practical matter, and the Obama administration has called to resurrect another provision of it.

Back in 2008, previous legislation, the "Prioritizing Resources and Organization for Intellectual Property Act" (the "PRO-IP Act") had established in the White House the Office of the U.S. Intellectual Property Enforcement Coordinator (IPEC), whose role was to be primarily responsible for developing and implementing a Joint Strategic Plan against counterfeiting and piracy and to serve as a principal advisor to the President on domestic and international intellectual property enforcement policy.

At the same time that the SOPA and PIPA legislation was emerging, IPEC had set in motion a "voluntary cooperation initiative" to call on a variety of stakeholders, including domain name registrars, Internet service providers, search engines, and payment processors—the very same "intermediary" targets of the SOPA and PIPA bills—to join together to combat infringement by denying service to sites accused of infringing activity.

After the failure of SOPA and PIPA, however, IPEC's "voluntary cooperation initiative" became more important and rose in prominence. On May 9, 2012, at a Senate Judiciary Committee hearing to oversee the work of IPEC, sponsors of the failed legislation expressed frustration at the failure. IPEC responded by stressing the "voluntary" processes that had been coming into place. The Coordinator stated: "Since this strategy was issued, I have engaged with Internet service providers, credit card companies, domain name registrars, online advertisers, and others on a voluntary, non-regulatory approach to reduce infringement. We need to quarantine the bad actors and make the business of infringement as difficult as possible." The industries she identified were the very ones at the center of the SOPA and PIPA debate.

One concern about such voluntary programs is that they urge enforcement and remedies without any judicial determinations, applying extra-legal standards. A "quarantine" is another word for a "boycott," and the determination of who is a "bad actor" is more suited to a court than to an informal inter-industry understanding.

In the past two years, we have observed reports about a variety of aspects of the "voluntary" cooperation initiative. In particular:

1. In July 2011 the White House announced a "memorandum of understanding" among major copyright companies and certain Internet service providers to create a "Copyright Alert System" that will target U.S.-based Internet users who are accused of copyright infringement, primarily through file sharing. Unlike SOPA and PIPA, this does not focus on making foreign websites unavailable to U.S. users. But part of the enforcement against those users is a series of "mitigation" measures that impair those users' activities on the Internet. Mitigation measures may include slowing the users' Internet access speeds to as low as 256 kbps, forced redirection of users to special pages before they can access other resources on the Internet, and even suspension of Internet access. There is a

review arbitration process, in which the user must pay a fee and meet a 14-day deadline to seek the arbitration on certain specified grounds.

2. In June 2011, a group of major credit card and payment processing companies reached an agreement to stop processing payments for owners of websites whom rights holders had accused of engaging in infringements. We have received a number of reports that payment processors are targeting certain categories of business for cutoff—for example, cyberlockers, virtual private network service providers, and Usenet access providers. We have observed a number of instances in which companies received threats of termination based on accusations by rights holders and had to argue for their continued participation in the payment networks.

3. On July 15, 2013, the White House announced an initiative in which major Internet advertising companies had agreed to cut off advertising on websites that copyright or trademark holders have accused of infringement. The "best practices" document associated with the initiative attempts to strike a balance. It: (1) Seeks to carve out from enforcement websites that have substantial non-infringing activities; (2) Makes clear that the networks are not generally in a position to make judgments about intellectual property rights or infringement; and (3) Provides for a notice and counter-notice process that allows the websites to respond to accusations. Nevertheless, the policy calls for possible suspension of a website upon an accusation until *verification* that a site is non-infringing. That appears to place a burden of proof on the website owner, not the accuser.

These initiatives seek to carry out a soft form of SOPA and PIPA. But they have established frameworks that provide fewer legal protections for accused parties than SOPA and PIPA, which required judicial determinations before certain remedies occurred.

Moreover, even without SOPA and PIPA, the U.S. government has taken radical action against owners of foreign websites under existing law, including a raid on the New Zealand home of the owner of the Megaupload cyberlocker service, his arrest and attempted extradition, seizure of all of his assets, the shuttering of his company, and the loss by its customers of all access to their stored materials, regardless of lawfulness of their activities.

Even the fourth principal component of SOPA has returned. In July 2013, an Internet Policy Task Force of the Commerce Department repeated the call for criminal streaming (public performance) violations of the Copyright Act to be elevated from a misdemeanor to a felony.

So far the public outrage over SOPA and PIPA has not returned. Perhaps it has not happened because all eyes have been on Congress while the real action has taken place elsewhere, in the White House and in private meetings with certain industries.

The lesson of SOPA and PIPA may be this: The American public may rise up when it sees Congress act. But when the debate moves to other forums, especially where privacy and secrecy, informal private actions, and "soft law" are the rule, the public may not notice.

Rader's Olive Branch: *Ultramercial II* Resolves the Judicial Deadlock of *CLS Bank*

By Robert R. Sachs

The Federal Circuit's *en banc* decision in *CLS Bank Int'l v. Alice Corp.,* 717 F.3d 1269, (Fed. Cir. 2013) has been roundly criticized as a "nightmare," further cementing the impression that the court was confused and in conflict over the requirements of patent eligibility under 35 U.S.C. § 101. The six non-precedential opinions are seen as leaving patent applicants and owners alike without guidance, let alone predictability, as to whether their patents are valid.

Alice Corp.'s patents covered computer-implemented methods and systems for a third-party intermediary to ensure real-time settlement of currency exchange transactions between counterparties. Judges Lourie, Dyk, Wallach, Reyna, and Prost appeared to take a hard stand against such software-based financial inventions, finding that neither the method nor system claims were patent-eligible. Under Lourie's "integrated approach," the patent claims lacked any "meaningful limitations" and thereby preempted all "practical applications" of the abstract idea of third-party settlement. Taking a middle position, Judges Rader, Moore, Linn, and O'Malley agreed that the method claims were not patent-eligible, but argued that the system claims were patent-eligible because they contained limitations that were not necessary and inherent in the abstract idea. At the other end of the bench, Judges Linn and O'Malley argued that the method claims were indeed patent-eligible because they included limitations that prevented the claims from being "unduly preemptive."

Not long after *CLS* issued, the Federal Circuit issued its second opinion on patent eligibility in the case of *Ultramercial v. Hulu*, No. 2010-1544, 2013 U.S. App. LEXIS 12715 (Fed. Cir. June 21, 2013) (*Ultramercial II*). The Ultramercial patent had been before the Federal Circuit back in 2011, *Ultramercial, LLC v. Hulu, LLC*, 657 F.3rd 1323 (Fed. Cir. 2011) (*Ultramercial I*). Then, Rader, Lourie, and O'Malley agreed that the method claims were patent-eligible—but they had no guiding theory, just a bundle of notions regarding the expansive scope of § 101, its role as a "coarse eligibility filter," and an "I-know-it-when-I see-it" test that the abstractness of the claim "should exhibit itself so manifestly as to override the broad statutory categories of eligible subject matter". *Id* at *1327. There was no discussion of preemption or meaningful limitations, or whether limitations were inherent or necessary. After its decision in *Mayo v. Prometheus,* 132 S.Ct. 1289 (2012), the Supreme Court vacated the panel's decision and remanded.

One way to resolve an argumentative deadlock is for one party to show that its own approach is consistent with that of its putative opponent. Thus, while the *Ultramercial II* decision was ostensibly for the purpose of conforming with the Supreme Court's guidance in *Mayo*, Rader took the opportunity to extend a judicial olive branch by more explicitly adopting Lourie's "integrated approach" to § 101. The most striking feature of Rader's opinion is how it synthesizes Lourie's views with his own. Rader's opinion cited Lourie's *CLS* opinion for the framework of his § 101 analysis but then followed it with text taken almost entirely from Rader's own *CLS* opinion.

Rader adopted the primary facets of Lourie's "integrated approach": 1) That preemption is the core concern; 2) That one must identify limitations in the claim that meaningfully limit the claim to a "practical application" of the abstract idea; and 3) That what counts as a meaningful limitation is a question of fact, including determining whether claimed limitations are in fact conventional, routine, or well understood.

In short, Rader was saying that he agrees with Lourie, and the details of his analysis were entirely consistent with Lourie's overall framework. Rader was not offering up an alternative or contrary theory of patent eligibility, but simply a "formulation" of a "precise test" that implemented Lourie's theory.

Lourie either did not see, or rejected, this attempt at judicial détente. His concurrence practically chides Rader: "I concur in the result reached by the majority, but I write separately because I believe that we should concisely and faithfully follow" the Supreme Court and "should track the plurality opinion of five judges from this court in *CLS Bank*." *Ultramercial II*, 2013 U.S. App. LEXIS 12715, at *46-47.

Perhaps the problem is that Rader did not explicitly implement the first two steps of Lourie's approach: "First, a court must identify whether the claimed invention fits within one of the four statutory classes set out in § 101" and "[s]econd, one must assess whether any of the judicial exceptions to subject-matter eligibility apply, including whether the claims are to patent-ineligible abstract ideas." *Id.* at *48. But Rader did in fact touch these bases. In Section III.A, he provided a detailed analysis of § 101's use of the term "process," and in Section III.B he reviewed the exceptions to § 101, including the abstract idea exception, followed by a detailed discussion of "abstractness" in Section IV.A. In Section VI, Rader applied his analysis and stated: "The claimed invention is a method for monetizing and distributing copyrighted products over the Internet. As a method, it easily satisfies § 100's definition of 'process' and thus falls within a § 101 category of patent-eligible subject matter." *Id*. at *38. Addressing the "abstractness" question, Rader set forth the 10 steps of the claim in a concise prose form and stated:

> Even at this general level, it wrenches meaning from the word to label the claimed invention "abstract." The claim does not cover the use of advertising as currency disassociated with any specific application of that activity. It was an error for the district court to strip away these limitations and instead imagine some "core" of the invention. *Id*. at *40.

At least textually, it seems that at worst Rader's opinion was not "concise" enough for Lourie: It took Rader 19 pages to set forth his § 101 analysis before applying the claims; by contrast, Lourie did it in two paragraphs on a single page.

But the textual explanation is not sufficient. Rather, the explanation lies in the profound difference in stances Lourie and Rader take toward technology in general and computer technology in particular. Judge Lourie (along with Judges Dyk, Prost, and Mayer) are "Normativists," who see § 101 as defining what inventions "ought" to be patent-eligible. The Normative approach imposes an extrinsic value judgment—from an unspecified source—as to what kinds of innovations count as "inventive" and what kinds do not. In particular, the Normativists believe that the use of computers to deliver useful functionality has no inherent inventive value *per se*, that there is no "human ingenuity" in designing computerized solutions. This view is based in part on the view that computers are so common, so woven into modern life, that using them to do something useful is not inventive:

> Because of the efficiency and ubiquity of computers, essentially all practical, real-world applications of the abstract idea implicated here would rely, at some level, on basic computer functions—for example, to quickly and reliably calculate balances or exchange data among financial institutions. At its most basic, a computer is just a calculator capable of performing mental steps faster than a human could. *CLS Bank*, 717 F.3d at 1286.

Because of this view, Lourie and other Normativists approach the patent eligibility question by stripping computer-implemented claims of the "jargon" to create "plain English" renderings. To the Normativists, using computers to perform functional tasks is merely "generic computer automation," evincing no "human contribution." This is odd because without the "human contribution" of programming, a computer is simply an expensive brick.

Rader, O'Malley, Linn, Moore, and Newman are Positivists: They view § 101 as asking whether invention as claimed is of a particular kind—a process, a machine, composition of matter, etc. Thus, they strongly respect the claim language, and criticized Lourie's approach of stripping down the claims and identifying "abstract ideas" as "hunting for abstractions by ignoring the concrete, palpable, tangible limitations of the invention the patentee actually claims." *Ultramercial II,* 2013 U.S. App. LEXIS 12715, at *22.

The Normativist view also reflects an "industrial" view of innovation and invention. In the Industrial Age, innovation was primarily achieved through structural transformation of raw materials in order to achieve the desired function. Hence the statement in Cochrane v. Deener, 94 U.S. 780 (1877): "A process is a mode of treatment of certain materials to produce a given result. It is an act, or a series of acts, performed upon the subject matter to be transformed and reduced to a different state or thing." In this framework, invention is essentially the creation of new things rather than new functions.

By contrast, for the Positivists there is invention in the manipulation of a computer toward a functional goal. This is significant because in the Information Age, there was value in the creation of new functions, new ways of doing things, as well as in the creation of information itself. More specifically, the ability to create functional transformation apart from structural transformation by the configuring (programming) of a computer is itself an innovation and can be an invention.

But Lourie's superficial view of computer technology led him to reject this point of view. In *In re Alappat*, 33 F.3d 1526 (Fed. Cir. 1994) (*en banc*), the Federal Circuit, Lourie concluded, held that "programming creates a new machine, because a general purpose computer in effect becomes a special purpose computer once it is programmed to perform particular functions pursuant to instructions from program software." *Id.* at 1545. Now, 19 years later, Lourie rejected this view, stating that Rader's reliance on *Alappat* is a "fallacy," because "not only has the world of technology changed, but the legal world has changed. The Supreme Court has spoken since *Alappat* on the question of patent eligibility, and we must take note of that change." *CLS Bank*, 717 F.3d at 1292. The problem with Lourie's reasoning is that the *technology* has *not* changed. It is universally accepted by computer scientists that anything that can be done in hardware by a special-purpose computer can be equivalently performed by a general-purpose computer running software. Indeed, the overwhelming majority of complex hardware devices—computers, cameras, smartphones, Blu-ray players, etc.—are designed first in software, and then implemented by hardware circuits. Nothing the Supreme Court has ruled—or could ever rule—can alter these technological facts.

Professor Mark Lemey has commented said that there are "two Federal Circuits." I think this is too simple a view. As Rader has attempted to show, the majority of the court agrees on the fundamental legal *theory* and implementation of § 101. In my view, the furor in the patent bar over the *CLS* opinion results from a myopic focus on the non-precedential status of th individual opinions and the verbal battle engaged in by the justices. However, if we view the overall complex of *CLS* opinions and *Ultramercial II* as a window into the working theories of the Federal Circuit judges, then out of discord can arise harmony. First, 10 members of the court agree that the presumption of validity applies to § 101 and that a challenge to the eligibility of the subject matter must be proven by clear and convincing evidence. Second, these judges agree that, contrary to the Supreme Court's suggestion, patent eligibility is not a "gateway" issue that must be addressed in patent litigation; instead, a district court can decide to focus on the issue of infringement, for example, and if the jury finds no infringement, dispense with the question of § 101 entirely. Finally, the judges also agree that § 101 ultimately requires resolution of questions of facts, not merely attorney arguments about the claims being simply abstract ideas, laws of nature, or other legal fictions. Where they differ is in their value judgments of what constitutes *invention* generally and their appreciation (or lack thereof) for the nature of computers and software in particular.

Quick Updates

Nash Bargaining Solution and Patent Damages: A 50 Percent "Rule of Thumb"?

The Federal Circuit rejected the use of the 25 percent "rule of thumb" as a basis for establishing a reasonable royalty in the *Uniloc* case in 2011. *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292 (Fed. Cir. 2011). Since that time, several defendants have challenged the use of a new method for determining a baseline royalty rate: the Nash bargaining solution.

The Nash bargaining solution—named for John Nash, the Nobel Prize–winning mathematician and subject of *A Beautiful Mind*—is based on the Nash bargaining game. The two players in the game are both seeking a portion of some good, such as money. If the total amount desired is less than the total good, each player will receive what he or she wants. If the total amount desired is greater than the total good, neither player will get what he or she wants. The Nash bargaining solution is a framework to solve the game by using a set of conditions reasonable to any bargaining situation. Although Nash described his game theory in 1950, damages experts have only recently begun using the Nash bargaining solution to argue that the starting point of any negotiation between the players would be a 50-50 split of the incremental contribution of the patent to the licensee's product.

Reaction from the courts has been mixed. No court has wholeheartedly adopted the application of the Nash bargaining solution, while several courts have rejected it as an "abstract rule of thumb" comparable to the 25 percent "rule of thumb."

In a 2011 opinion in *Oracle v. Google*, 798 F. Supp 2d 1111 (N.D. Cal. 2011), Judge Alsup rejected application of the solution under *Daubert* and *Uniloc*: *Daubert v. Merrell Dow Pharm., Inc.*, 509 U.S. 579 (1993); *Uniloc*, 632 F.3d 1292. "The Nash bargaining solution would invite a miscarriage of justice by clothing a fifty-percent assumption in an impenetrable facade of mathematics." In that case, the damages report was served five months after the Federal Circuit rejected the 25 percent rule. Judge Alsup noted: "It is no wonder that a patent plaintiff would love the Nash bargaining solution because it awards fully half of the surplus to the patent owner, which in most cases will amount to *half* of the infringer's profits, which will be many times the amount of real-world royalty rates." In a later case in the same district, *Mformation Techs, Inc. v. Research in Motion Ltd,* 2012 U.S. Dist. LEXIS 56784 (N.D. Cal. March 29, 2012), Judge Ware allowed the use of the Nash bargaining solution "as a check" on the reasonableness of the royalty rate where the expert had engaged in "extensive analysis of the *Georgia-Pacific* factors."

Since that time, in *VirnetX Inc. v. Cisco Systems*, 2013 WL 789288 (E.D. Tex. Mar. 1, 2013) in the U.S. District Court of the Eastern District of Texas, Judge Davis declined to exclude an expert's application of Nash bargaining, while excluding the expert's reasonable royalty analysis as unreliable. Most recently, in *Suffolk Techs. LLC v. Aol Inc*, 2013 U.S. Dist. LEXIS 64630 (E.D. Va. Apr. 12, 2013), Judge Ellis rejected application of the Nash bargaining solution, stating: "Weinstein's use of the NBS to opine that the hypothetical negotiation of the parties would result in a '50-50 split of the incremental profits attributable to the patents-in-suit' is not adequately tied to the facts of the case. This is indistinguishable from the 25 percent rule of thumb in issue in *Uniloc*, and accordingly, Dr. Weinstein's expert report must be excluded." Judge Ellis noted that in *Uniloc*, the "expert first applied a theoretical rule of thumb and then applied the *Georgia-Pacific* factors," but "here, Weinstein first applied the *Georgia-Pacific* factors and then applied a theoretical rule of thumb, albeit one clothed as NBS." The variation in the order did not meaningfully distinguish the expert's opinion from the one distinguished in *Uniloc*.

The Federal Circuit rejected the 25 percent rule of thumb as inadmissible because it "fails to tie a reasonable royalty base to the facts of the case at issue." Since that opinion, two district courts have rejected the Nash bargaining solution on the same basis. Courts have differed in whether "extensive" fact-based analysis of the *Georgia-Pacific* factors is sufficient to overcome the "theoretical" nature of Nash bargaining. *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp 1116 (S.D.N.Y. 1970). Until the Federal Circuit addresses the issue, plaintiff-side damages experts will continue to rely on the more generous 50 percent rule of thumb. And defendants who thought they were insulated from "rules of thumb" will continue to challenge the reliability of those opinions.

Federal Circuit Holds That Failure to Abide by NDA Confidentiality Designation Provisions Can Preclude Trade Secret Protection

Prior to discussing or exchanging proprietary information with one another, companies frequently enter into non-disclosure agreements (NDAs) to afford protections beyond what they would otherwise be entitled to under their states' trade secret misappropriation laws. Most NDAs will lay out the scope of protectable information and procedure for designating it as such. It is important for a party entering such an NDA to understand, however, that doing so may preclude it from later pursuing a trade secret misappropriation claim in the event it believes that its confidential information has been misused. Such was the case for Convolve, the plaintiff in a trade secret misappropriation and patent infringement action against Compaq and Seagate. In *Convolve, Inc. v. Compaq Computer Corp.*, No. 2012-1074, 2013 WL 3285331 (Fed. Cir. July 1, 2013), the Federal Circuit upheld the district court's grant of summary judgment to defendants Compaq and Seagate upon concluding that they had not, as a matter of law, misappropriated Convolve's trade secrets.

The origin of the dispute dates back to 1998, when Convolve and Compaq began licensing negotiations regarding Convolve's disk drive technology and signed an NDA to facilitate sharing of their respective confidential information. The NDA stated that in order to be protected under the agreement, the disclosed information must be:
(1) Marked as confidential at the time of disclosure; or
(2) Unmarked, but treated as confidential at the time of disclosure, and later designated confidential in a written memorandum summarizing and identifying the confidential information. Seagate, Compaq's hard drive supplier, was also involved in the negotiations and signed a similar NDA with Convolve.

After the NDA was in place, Convolve gave several oral presentations to Compaq and Seagate regarding its signal shaping technology and its application to disk drives, but did not state in writing that these oral disclosures were confidential. Ultimately, the negotiations broke down and the parties failed to reach a licensing deal. Several years later, when Seagate began making a type of drive for Compaq's computers that allegedly included features of the signal shaping technology disclosed during the negotiations, Convolve sued. While Convolve acknowledged that its failure to abide by the NDA's confidentiality designations provisions precluded it from bringing a breach of contract claim, it argued that it was still entitled to assert separate state tort law claims for trade secret misappropriation under the California Uniform Trade Secrets Act (CUTSA).

The district court, and then later the Federal Circuit on appeal, disagreed. The Federal Circuit reasoned that because the NDA had expressly set the boundaries of the confidential relationship between the parties, it would not make sense to impose a separate duty of confidentiality under the CUTSA. Because the information disclosed by Convolve clearly fell within the subject matter of the NDA, and because Convolve failed to comply with the NDA's designation requirements, Convolve forfeited its right to pursue a separate tort against the defendants arising from their use of the information. This case not only serves as an important reminder that any party entering into an NDA must vigilantly abide by its requirements for designating confidential information, but it also suggests that parties wishing to preserve their trade secret claims might consider drafting their NDA language accordingly or else risk forfeiting such claims entirely.

ICANN Set to Launch New Generic Top-Level Domains: Understanding the Nuts and Bolts

The universe of generic top-level domains (gTLDs), currently limited to about a dozen such as .com, .net, and .org, will expand this year, as some of the more than 1,000 potential new gTLDs are rolled out. Businesses may want to use some of these gTLDs—such as .store, .cloud, .software, .app, .home, and many more—as part of their brand strategies.

The Internet Committee for Assigned Names and Numbers (ICANN) has been reviewing new gTLD applications on a rolling basis. On July 15, 2013, ICANN announced the first three approved gTLD applicants that have signed Registry Agreements, indicating that these applicants are now permitted to begin operating their new gTLD registries:

- International Domain Registry Pty. Ltd. — شبكة (Arabic for “web” or “network”)
- Core Association — онлайн (Russian for “online”) and .сайт (Russian for “website”)
- Spring Fields, LLC — 游戏 (Chinese for “game”)

Brand owners should think about defensively registering their brand names as second level domains (SLDs) in new gTLDs that are relevant to their specific industries (e.g., www.*yourbrand*.app, www.*yourbrand*.cloud). SLD registrants will be given access to two primary rights protection mechanisms provided by all new gTLD operators:

1. *Trademark Clearinghouse.* The Clearinghouse is a trademark registration database that ICANN requires each new gTLD registrar to cross-reference when someone tries to register an SLD that is identical to a brand in the database. Brand owners can deposit their marks in the Clearinghouse at http://trademark-clearinghouse.com. Marks must be nationally or multinationally (e.g., the European Union (EU)) registered or otherwise validated by a court. Brand owners must also submit evidence that their marks are in use if they wish to register a given mark as an SLD during a “Sunrise Period.”

2. *Sunrise and Claims Periods.* ICANN requires each new gTLD registrar to give Clearinghouse members a first chance at SLD registrations by offering a Sunrise Period of at least 30 days before registrations become available to the general public. Some brand owners will want to use SLDs themselves; others will obtain SLDs simply to keep third parties from registering them.

When a new gTLD registry opens to the general public after the Sunrise Period, ICANN requires it to offer a claims period of 90 days. During this time, registrars must notify a Clearinghouse member if anyone tries to register an SLD that is identical to the member’s deposited mark, and notify the SLD applicant that the attempted registration potentially infringes the mark.

It is important to note that the Clearinghouse does not prevent others from registering a brand owner’s mark as an SLD in a new gTLD registry. The Clearinghouse only 1) Gives brand owners an opportunity to register their brand names as SLDs in a new gTLD before the general public (in the Sunrise Period); and 2) Gives notice to brand owners and SLD applicants that an attempted SLD registration may infringe a mark in the Clearinghouse (in the claims period). Given the limitations inherent in these rights protection mechanisms, in addition to defensively registering their brand names, brand owners should also consider expanding existing domain name policing efforts to include the new gTLD space.

Electronic Transfer of Copyright Approved by Fourth Circuit

The Fourth Circuit has confirmed what many copyright holders have long hoped was true: That copyright interests can be validly transferred through electronic means, despite language in the 1976 Copyright Act requiring that the transfer be “in writing and signed by the owner.” Prior to the court’s July 17 ruling, no appellate court had ever squarely addressed the issue.

Both parties to the suit in question, *Metropolitan Regional Info. Sys. v. American Home Realty Network,* 722 F. 3d 591 (4th Cir. 2013), are operators of real estate listing websites. Metropolitan allowed brokers to list properties for a fee, and American took listings from various listing sites, such as Metropolitan’s, and made them available directly to the public. Metropolitan’s complaint alleged that American had infringed its copyrights by using and reposting the photos from Metropolitan’s site, which copyrights Metropolitan had acquired online from the brokers that photographed the properties.

The appellate court heard argument from the appellant, American, that the infringement claims were invalid because Metropolitan did not own the copyright in the photos because its use of automated, “click-through” agreements was not a valid means of transferring copyright ownership from the original photographers. American sought reversal of the lower court’s injunction against it, on the ground that such transfers do not meet the writing requirement of § 204 of the 1976 Copyright Act, which governs the formalities of copyright assignment.

Section 204 states that a “transfer of copyright ownership, other than by operation of law, is not valid unless an instrument of conveyance, or a note or memorandum of the transfer, is in writing and signed by the owner of the rights conveyed or such owner’s duly authorized agent.”

Metropolitan argued, on the other hand, that despite the language of § 204, such electronic transfers were made valid under a federal law known as the E-Sign Act, which was passed in 2000 to ensure the validity of electronic signatures.

The E-Sign Act, according to the court, was designed to “bring uniformity to patchwork state legislation governing electronic signatures and records,” and to guarantee that no signature could be denied legal effect simply by virtue of being in electronic form. The court noted that the E-Sign Act included various exemptions under which electronic signatures would not suffice as substitutes for written signatures—such as in the case of written wills and testaments—but that copyright transfers were not amongst those exemptions.

For these reasons, the court agreed with Metropolitan, and upheld the lower court’s injunction. The Fourth Circuit wrote that “to invalidate copyright transfer agreements solely because they were made electronically would thwart the clear congressional intent embodied in the E-Sign Act … we therefore hold that an electronic agreement may effect a valid transfer of copyright interests.”

Fenwick FENWICK & WEST LLP

Intellectual Property Bulletin Editorial Staff

Staff Editor	Stuart P. Meyer
Assistant Editors	Antonia L. Sequeira Christopher D. Joslyn
Article Contributors	Andrew P. Bridges, Stephen R. Garcia, Emily M. Gische, Mark Jansen, David Marty, Robert R. Sachs, Jennifer Stanley, Betsy White and Lauren E. Whittemore

Fenwick & West LLP Practice Groups

Intellectual Property

David L. Hayes	*Chair*
Sally M. Abel	*Chair, Trademark Group*
Ralph M. Pais	*Chair, Technology Transactions Group*
Mark S. Ostrau	*Co-Chair, Antitrust and Unfair Competition Group and Co-Chair, Cleantech Group*
John T. McNelis	*Chair, Patent Group*
Jennifer Stanley	*Chair, Copyright Group*
Michael J. Shuster	*Co-Chair, Life Sciences Group*

Litigation

Darryl M. Woo	*Chair*
Tyler A. Baker	*Co-Chair, Antitrust and Unfair Competition Group*
Laurence F. Pulgram	*Chair, Commercial & Copyright Litigation Groups*
Michael A. Sands	*Co-Chair, Electronic Information Management Group*
Robert D. Brownstone	*Co-Chair, Electronic Information Management Group*
Kevin P. Muck	*Chair, Securities Litigation Group*
Charlene M. Morrow	*Chair, Patent Litigation Group*
Jedediah Wakefield	*Chair, Trademark Litigation Group*
Rodger R. Cole	*Chair, Trade Secret Litigation Group*
Daniel J. McCoy	*Co-Chair, Employment Practices Group*
Victor Schachter	*Co-Chair, Employment Practices Group*
Christopher J. Steskal	*Chair, White Collar/Regulatory Group*

Corporate

Richard L. Dickson	*Chair*
Douglas N. Cogen	*Co-Chair, Mergers and Acquisitions Group*
David W. Healy	*Co-Chair, Mergers and Acquisitions Group*
Horace Nash	*Co-Chair, Securities & Corporate Finance Group*
Jeffrey R. Vetter	*Co-Chair, Securities & Corporate Finance Group*
Scott P. Spector	*Chair, Executive Compensation and Employee Benefits Group*
Stephen M. Graham	*Co-Chair, Life Sciences Group*
Cynthia Clarfield Hess	*Co-Chair, Start-ups and Venture Capital Group*
Mark A. Leahy	*Co-Chair, Start-ups and Venture Capital Group*
Scott B. Joachim	*Chair, Private Equity Group*
Sayre E. Stevick	*Co-Chair, Cleantech Group*

Tax

David L. Forst	*Chair*
Kenneth B. Clark	*Chair, Tax Litigation Group*

Fenwick & West's Intellectual Property Group offers comprehensive, integrated advice regarding all aspects of the protection and exploitation of intellectual property. From providing legal defense in precedent-setting user interface copyright lawsuits and prosecuting software patents to crafting user distribution arrangements on behalf of high-technology companies and implementing penetrating intellectual property audits, our attorneys' technical skills enable the Firm to render sophisticated legal advice.

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

www.fenwick.com

We appreciate your feedback!

If you have questions, comments, or suggestions for the editors of the IPB, you can email them to IPB@fenwick.com.

For subscription requests and address changes, please email IPB@fenwick.com.