

# INTELLECTUAL PROPERTY ADVISORY

Spring 2002

## Copyright

### Grant Allowing Electronic Use of Copyrighted Works Must Be Explicit

A grant of rights to a copyrighted work does not necessarily permit use of the copyrighted work in a digital or electronic form. Two recent judicial decisions illustrate the need for agreements to expressly indicate whether a grant includes digital and electronic media. In one case, *Random House v. Rosetta Books*, the District Court for the Southern District of New York held, and the U.S. Court of Appeals for the Second Circuit affirmed, that the right to sell the [copyrighted] work in book form” does not include publishing the work as an “e-book.” In another more publicized case, *New York Times Company v. Tasini*, the Supreme Court held that publishers cannot make the copyrighted works of freelance authors available in an electronic database unless the agreement with the author expressly granted that right.

In *Rosetta Books*, the court was faced with the latest e-book technology and interpreting agreements between publishers and authors that were between twenty and forty years old. Each agreement, while granting broad rights in regard to publication in book form, limited the scope of the agreement by reserving certain other rights such as motion picture rights or foreign language rights. The court relied on the restrictive nature and language of the agreements to determine that the agreements were not broad, carte blanche grants of all the rights associated with the copyrighted works. Ultimately, the court determined that the “new use” of e-books (electronic digital signals sent over the Internet) is a separate medium from the original use (printed words on paper) and therefore not covered by the agreements.

In *Tasini*, the Supreme Court found that publishers were infringing the copyrights of freelance authors by allowing the articles, which originally appeared as a part of a collective work (for example, a newspaper or magazine) to be obtained individually through electronic databases such as Lexis/Nexis. Specifically, the Court determined that Section 201 of the Copyright Act does not allow publishers to reproduce or distribute the individual works separately via electronic databases. The Court differentiated between “individual articles” and “intact periodicals.” A publisher can transfer the entire collective work as it originally appeared, advertisements and all, on, for instance, microfilm or a CD-ROM within Section 201. A publisher cannot, however, barring express permission from the author, offer the articles individually, wholly apart from the collective work.

The *Tasini* decision has confirmed the publishing industry’s challenges associated with making its past issues of magazines, newspapers and journals available through an electronic database. Going forward, however, there are some things that both publishers and authors can keep in mind: Both parties will benefit from a clear identification of the rights granted from authors to publishers, and those retained. Publishers may want their agreements with authors or other contributors to include the rights for all foreseeable uses, including technology not yet developed, of the copyrighted work.

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## Patents

# Recent Case Reveals Problem Claiming Paris Convention Priority

The Court of Appeals for the Federal Circuit recently heard the case of *Group One, Ltd., v. Hallmark Cards, Inc.*, which highlighted a problem potentially encountered by patent applicants whose U.S. patent applications claim Paris Convention priority to foreign applications.

Certain events can occur before the priority date, which do not destroy novelty under the laws of the country in which the priority application is filed (the “priority” country), but do destroy novelty under U.S. law. For example, before filing a priority application, a foreign applicant might make a confidential “offer for a sale” to a customer in the U.S. Under the laws of the priority country, the confidential nature of this offer may preserve patentability. However, under U.S. law, the offer may trigger the “on-sale bar” under Section 102(b) of the U. S. patent law. Nevertheless, within a year after the priority date, but more than one year after the offer for sale, the applicant files either a U.S. patent application or an international application designating the U.S. Ultimately, a patent is granted, and the patentee then initiates litigation to enforce the patent. In litigation, the offer for sale is uncovered and is held to invalidate the patent under 35 USC §102(b) and 35 USC §119(a). Section 119(a) defines the scope of foreign priority but also limits that priority. Specifically, the section states that “no patent shall be granted...for an invention which had been patented or described in a printed publication in any country more than one year before the date of the actual filing of the application in this country, or which had been in public use or on sale in this country more than one year prior to such filing.”

This result is consistent with the language of the Paris Convention. Section B of Article 4 of the Convention states that an application claiming priority under Section A “shall not be invalidated by reason of any acts accomplished in

the interval” between the filing of the priority application and the subject application. Inasmuch as the events identified in §102(b) and §119(a) would have occurred before the filing of the priority application, the result is permitted under the Convention.

In the *Group One* case, the patentee was able to avoid the effects of §119(a) by arguing that the activities involved did not rise to the level of a “commercial offer for sale” and may merely have been an offer to license future patent rights. Nevertheless, this case highlights the fact that a Paris Convention priority claim is not effective to defeat §102(b) events which occurred before the priority date.

Accordingly, consider whether a potential event such as an offer for sale in the U.S. has occurred prior to the priority date. If so, do not wait until the full Paris Convention priority year has lapsed before undertaking further filing activity. The filing of an international application designating the U.S. or a U.S. national application can be expedited so that such international or U.S. national filing is within one year of the event in question. Or, alternatively, file a U.S. provisional patent application within one year of the event in question. The provisional application need not be in English and, indeed, may simply be a photocopy of the priority application. A subsequent international application or U.S. national application may claim Paris Convention priority to the priority application and priority under 35 USC §119(e) to the provisional application. Because priority under §119(e) does not suffer from the same limitation as does priority under §119(a), a provisional filing date is effective to overcome the potential §102(b) event.

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Certainly, if the work is to be posted for distribution electronically or published as an e-book, that use must be explicitly stated in the agreement. Older agreements must be reviewed to determine whether digital/electronic use is authorized.

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## U.S. Enforces Encryption Export Rules

On February 21, 2002, the Bureau of Export Administration (“BXA”) of the U.S. Department of Commerce imposed a \$95,000 civil penalty on Neopoint, Inc., for illegal exports of encryption technology to South Korea. The action underscores the Bush Administration’s commitment to national security aspects of technology policy. In this heightened period of security, companies should make certain that they are in compliance with current U.S. law on the export of encryption technology.

On October 19, 2000, the Bureau of Export Administration announced revisions to the encryption export rules intended to streamline the export and re-export of encryption products to the 15 members of the European Union (“EU”) and 8 U.S. trading partners (“EU+8”). 15 C.F.R. Parts 732, 740, 742, 744, 748, 770, 772 and 774 (2000). The new rules were designed to mirror the EU’s recent liberalization of export rules for encryption products and ensure the competitiveness of U.S. companies in international markets.

Under current law, U.S. companies can export most encryption products under a license exception to any end-user in the EU+8 as well as worldwide offices of firms and organizations with headquarters in those countries. Previously, U.S. companies were allowed to export “retail” encryption products to any country except for those countries labeled terrorist. However, U.S. companies were required to get a license before exporting “non-retail” encryption products. Now, U.S. companies can export the products immediately after submitting a commodity classification request to the BXA. Companies no longer have to wait for the 30-day review to be completed. The revisions also changed the treatment of products incorporating short-range wireless technologies, open cryptographic interfaces, beta test software, encryption source code and U.S. content requirements. In addition, current regulations allow exporters to self-classify unilateral controlled encryption products that fall under Export Control Classification Numbers (“ECCN”) 5A992, 5D992 and 5E992. Although the rules were streamlined, their enforcement activity has increased. Exports by U.S. companies to the terrorist supporting states are still banned.

### Important Aspects of Current Regulations

**DeMinimis U.S. Content.** Software controlled under ECCN 5D002, which is eligible for export under the “retail” or “source code” provisions of the license exception ENC, and parts and components under ECCN 5A002, may be eligible for de-minimis treatment after (1) review and (2) classification by the BXA. As such, certain U.S. origin encryption items incorporated into foreign products may qualify for

de-minimis treatment. Exporters applying for de-minimis eligibility must submit a classification request and explain why the component qualifies for de-minimis treatment.

**Temporary Imports, Exports & Re-exports (collectively, “TMP”).** TMP includes encryption software controlled for “EI” reasons under ECCN 5D002 to be allowed under the beta test provisions of the license exception TMP. At the time of export, the U.S. company must provide the BXA and the ENC Encryption Request Coordinator with the information delineated in Supplement 6 to Part 742 of the regulation. Any final resulting product will require review and classification. In addition, names and addresses of the testers, except for individual consumers, and the name and version of beta software must be reported every six months. Note that encryption software falling under ECCN 5D992 is suitable for beta test provisions.

**Technology and Software Unrestricted (TSU).** Object code compiled from source code eligible for License Exception TSU can be exported globally under License Exception TSU if the requirements of Section 740.13 are met and no fee is required for object code. Object code, for which there is a fee, can be exported under Section 740.17(b)(4)(i) using License Exception ENC to any end-user without review or classification. The exporter must submit written notification of the Internet location or a copy of the source code to BXA and the ENC Encryption Request Coordinator. Exporters are encouraged to notify the BXA electronically at [crypt@bxa.doc.gov](mailto:crypt@bxa.doc.gov).

**Encryption Commodities and Software (ENC).** Encryption items, except for cryptanalytic products (as specified in ECCN 5A002.a.2) and software and technology related to these cryptanalytic products, can be exported immediately to the EU+8 under License Exception ENC. The exporter must submit a completed classification request to the BXA by the time of export. Exports and re-exports of encryption items for internal use to foreign subsidiaries or offices of firms, organizations and governments headquartered in Canada or in any of the EU+8 are eligible under this provision.

**Encryption Items to U.S. Subsidiaries.** Foreign nationals, except those from the T-7 nations, who may not be permanent employees and are working for U.S. companies, are eligible to receive technology controlled under ECCN 5E002 in the U.S. under License Exception ENC.

**Encryption Commodities and Software.** Any encryption commodity, general purpose toolkit, software and component, can be exported or re-exported to individuals, com-

mercial firms or non-government end-users located outside the EU+8 under License Exception ENC, after review and classification by the BXA under ECCN 5A002 and 5D002. Note that internet and telecommunication service providers may use encryption products for internal use and to provide services under License Exception ENC.

**Retail Encryption Commodities.** Under the License Exception ENC, items which are controlled only because they contain components providing encryption functionality, which is limited to short-range wireless encryption, can be exported without prior review, classification or reporting. In addition, U.S. companies can now export and re-export finance-specific encryption products and 56-bit products with key exchange mechanism greater than 512 bits and up to and including 1024 bits immediately after submitting a classification request to BXA. Finally, the definition of “retail” now includes anticipated sales.

**Commercial Encryption Source Code.** Object code derived from source code that would be considered publicly available and eligible for export under License Exception TSU and ENC, can also be exported and re-exported under License Exception ENC if the requirements of Section 740.17(b)(4)(1) are met. Exporters must submit written notification of the Internet location or a copy of the source code to the BXA and the ENC Encryption Request Coordinator by the time of export. Additionally, commercial encryption source code, which would not be considered publicly available, may now be exported or re-exported to any non-government end-user immediately after submitting a completed classification request.

**Cryptographic Interfaces.** U.S. companies can now export and re-export immediately encryption commodities, software and components which provide open cryptographic interface to any end-user located in the EU+8 under License Exception ENC. Exports and re-exports to other countries, except to U.S. subsidiaries for internal use, require a license. Also, encryption products that enable foreign products to operate with U.S. products can be exported to any eligible end-user under the License Exception ENC. BXA does not have to review the foreign enable product but limited reporting is required.

**Reporting Requirements.** The new rules eliminate reporting requirements for consumer products incorporating short-range wireless encryption, client Internet appliance and wireless LAN cards, and retail operating systems or desktop applications designed for, bundled with or preloaded on single CPU computers, laptops or handheld devices. Additionally, the regulation abolishes reporting requirements for foreign products developed by compiling source code. Further, when exporting technology to the EU+8, semi-annual reports must include (1) the name and address

of the manufacturer using the technology to develop products for sale and (2) a non-proprietary technical description of the product. Finally, U.S. companies no longer need to report exports to Internet and telecommunications service providers.

**Eligibility for License Exception ENC.** U.S. companies should submit a commodity classification request (Form BXA-748P) along with supporting documents to BXA in accordance with Section 748.3(b) and Supplement 6 to Part 742 of the regulation to initiate a review and classification of encryption items. Also, exporters should write “License Exception ENC” in Block 9: Special Purpose of the request form. Further, a copy of the request and supporting documents should be sent to the ENC Encryption Request Coordinator.

**Grandfathering.** A grandfathering clause in the revised regulation allows companies to export most encryption products previously reviewed under a License, Encryption License Arrangement or classified under License Exception ENC to any end-user in the EU+8 and any non-government end-user outside the EU+8. Additionally, any finance-specific or 56-bit product previously reviewed and classified by BXA can be exported to any end-user without further review.

**Key Length Increases.** U.S. companies can increase the key lengths of previously classified products and continue to export them without another review. However, no other change in cryptographic functionality is allowed. Products previously classified as ECCN 5A002 or 5D002 can, with any upgrade to the key length used for confidentiality or key exchange algorithms, be exported or re-exported without additional review. Exporters must certify in a letter from a corporate official that the change to the encryption is to the key length used for confidentiality or key exchange algorithms. BXA must get the original certification and a copy must be sent to the ENC Encryption Request Coordinator before export.

**Encryption Items.** The new rules permit U.S. companies to self-classify items with key length up to and including 56 bits with an asymmetric key exchange algorithm not exceeding 512 bits, mass market encryption commodities and software with key lengths not exceeding 64 bits, and key management products under ECCN 5A992, 5D992 or 5E992. The exporter must submit to BXA and the ENC Encryption Request Coordinator the information described in Supplement 6 to Part 742 of the regulation. After submitting the information, the items may be exported and re-exported “NLR” No License Required.

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## Effect of American Inventor's Protection Act on Inventions in Biotechnology

On November 29, 2000, the American Inventor's Protection Act (AIPA) became law. While the Act contains many diverse provisions, two of the most significant provisions for companies working in the biotechnology area are publication of U.S. patent applications and provisional patent rights.

Amended statute 35 U.S.C. §122(b) now provides for publication of U.S. patent applications 18 months from the earliest priority filing date. Publication will affect all new applications, including divisionals, continuations, CIPs, but not requests for continued examination (RCEs).

Applications that will not be published include applications that are abandoned prior to the 18 month publication date, applications under secrecy order, design applications, and applications filed with a request not to be published. A request that the application not be published may be submitted only if the application has not been and will not be filed abroad in a country that requires 18-month publication. The statute also provides that a redacted copy of a U.S. application may be submitted for publication if a corresponding foreign application contained less subject matter than the corresponding filed U.S. application. The published U.S. patent applications are made available only via the USPTO electronic database.

One major difference between the conventional publication of foreign patent applications and new publication of U.S. patent applications is that publication of U.S. patent applications makes the contents of the entire file maintained at the U.S. Patent Office, not just the application, available to the public. Under new 37 CFR §1.14(c)(2), anyone can request a copy of a published pending patent application file upon written request. Thus, it is now possible to monitor the filing and prosecution of published patent applications of competitors in both the U.S. and Europe, arguably the two largest markets in the world. Based on this new accessibility, as a practical matter, it may be desirable to periodically search the USPTO database for newly published patent applications of competitors in your field or market. The search may be conducted at <http://www.uspto.gov/patft/index.html> using conventional boolean search terms.

The 18-month publication will likely have a positive effect on competitors who try to "design around" the newly published invention. In general, the later in the patenting process that a competitor becomes aware of a patented product, the more difficult and expensive it becomes for

him to design a noninfringing product. With the 18-month publication, a competitor can become aware of a product for which patent protection is sought much earlier and begin the design around process earlier and less expensively. On the other hand, the 18-month publication will publicly disclose a claimed invention that may cover an infringing activity of a competitor. The publication could alert the infringer to cease its infringing activity well in advance of patent issuance, and thus prevent the applicant from recovering potentially significant damages.

Prior to enactment of the AIPA, the applicant had no rights until the patent actually issued. However, under new 35 U.S.C. §154(d)(1), an applicant has the right to obtain a "reasonable royalty" from any person who infringes the invention claimed in a published patent application. These new rights become effective upon publication of the application and continue until the patent issues.

Certain criteria must be met before a claim to a reasonable royalty may be made against an infringer. For the infringer to be liable, he must have actual notice of the published patent application, and the invention claimed in the issued patent must be substantially the same as the invention claimed in the published application. Thus, for an applicant to successfully recover a reasonable royalty for the activity of an infringer after publication, but before patent grant, an issued claim covering the infringer's activity must have been published. As a practical matter, it may be desirable to send potential competitors copies of published patent applications by registered mail to notify them of the claimed invention.

The provisional patent rights will likely be particularly useful for biotechnology companies that patent research tools, such as receptors useful in drug screening. Prior to enactment of the AIPA, competitors would have access to the foreign patent files of the research tool, and could practice the invention in secret in the U.S. without fear of any legal penalty. By the time the U.S. patent issued, the competitor would cease using the tool, and the applicant would have no recourse. However, under the new provisional rights provisions of the U.S. patent laws, applicants will now have an early legal remedy, providing all the criteria are met.

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## Copyright

# Potential Extended Copyright Term for Certain Unpublished Works

The term of U.S. copyright protection for any given work is sometimes difficult to determine due to the many changes in our copyright law over the past twenty-five years. Generally, for a work that was created but neither “published” nor the copyright registered before January 1, 1978, the copyright endures either for the life of its author plus 70 years, or 120 years from its creation (if it is a work made for hire) — unless the copyright would have expired before 2002, in which case the copyright endures until December 31, 2002. If, however, the work is published on or before December 31, 2002, the term of copyright is extended to December 31, 2047. So, if the author of an unpublished work died in 1932 or earlier, or if an unpublished work made for hire was created before 1883, the affected copyright owner should consider publishing the work before the statutory deadline to obtain the benefit of this extended protection.

“Published” is a term of art in copyright law: “publication” occurs when, with the consent of the copyright owner, the original or tangible copies of a work are sold, leased, loaned, given away, or otherwise made available to the general public. (Submitting a manuscript written before 1978 to a publisher for consideration would not qualify as “publication.”) The ease of disseminating information via the Internet has opened up new and efficient opportunities for publication. Distribution on the Internet (as well as any conventional means of publication) on or before December 31, 2002, of any such previously unpublished, unregistered pre-1978 work will extend copyright protection until December 31, 2047.

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