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Copyright
Supreme Court Upholds Copyright Extensions

In its much anticipated decision in *Eldred v. Ashcroft* on January 15, 2003, the U.S. Supreme Court upheld the constitutional authority of Congress to extend the term of future and currently existing copyrights. Article I, Section 8, clause 8 of the Constitution provides that "Congress shall have Power . . . To promote the Progress of Science . . . by securing for limited Times to Authors . . . the exclusive Right to their . . . Writings." In the 1998 Sonny Bono Copyright Term Extension Act ("1998 Act"), Congress extended copyright protection for most works from fifty to seventy years after the author's death. The Court held in *Eldred* that Congress's extension of the copyright term was a reasonable exercise of Congressional authority and that this extension did not conflict with the freedom of expression guaranteed under the First Amendment of the Constitution.

Eric Eldred, the lead plaintiff in the case, challenged the 1998 Act's extension of copyright because it hindered his efforts to post classic literature that had entered the public domain on his website (www.eldritchpress.org). Mr. Eldred's challenge was supported by an array of legal scholars, literary academics, and library groups, who believed that the 1998 Act upset the balance copyright law must maintain between providing commercial incentives for copyright owners and protecting the public's interest in having unhindered access to cultural works. They argued that the 1998 Act's extension of existing copyrights failed to stimulate the creation of new works but instead merely added commercial value to works already created by prolonging the time when these works will enter the public domain.

The Court, however, disagreed. The Court rejected several novel arguments presented by Mr. Eldred and his supporters. They argued, among other things, that the Constitutional language "limited Times" means that once Congress establishes the duration of a copyright, that term is inalterably fixed, and that by continually extending an existing copyright Congress could avoid the time limitation and create a "virtually perpetual" copyright. The Court was not persuaded, finding that such "legislative misbehavior" was not presented in this case. Instead, the Court emphasized Congress's consistent historical practice of applying newly enacted copyright terms to currently existing as well as to future copyrights. Whenever Congress had previously extended copyright terms, it had done so to both existing and future works. According to the Court, Congress consistently placed existing copyright holders in parity with future holders.

The Court also easily dispatched Mr. Eldred's First Amendment challenge by reasserting that copyright's distinction between idea and expression permits the free communication of facts and ideas while protecting an author's actual expression. Thus copyright has a "built-in" safeguard that provides free speech protections. In addition, the Court found that the "fair use" defense also allows the public, in certain circumstances, to use an author's expression as well as the fact and ideas contained in it.

The Court was also persuaded that Congress's intent to harmonize U.S. law with international copyright law, particularly European Union law, reasonably promoted the progress of art and science. W&D

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Proposed European Community Software Patent Directive

On February 20, 2002, the European Commission presented a proposal for a Directive on the patentability of computer-implemented inventions. Citing an effort to harmonize the way in which national patent laws of its Member States deal with inventions using software, the European Commission recommended adoption of the proposed Directive to the European Union's Council of Ministers and the European Parliament. If adopted, the Directive would be passed to the Member States for implementation into their national patent laws.

While the proposed Directive has no direct legal effect on the European Patent Office (EPO), once granted European patents become subject to national laws. Any patents filed after the effective date of the proposed Directive that were inconsistent with its provisions would have to be amended or may be deemed unenforceable under national laws. Therefore, we anticipate that the EPO will resolve any inconsistencies with its practices, the proposed Directive and the European Patent Convention (EPC) as a whole. This was the approach taken previously after issuance of the Biotechnology Patent Directive.

Because the European Union (EU) is one of the largest markets for software, the proposed Directive will require companies to consider carefully strategies for seeking worldwide protection for some innovations.

The European Commission's proposed Directive applies the general requirements for patents recited in the EPC to computer-implemented inventions. The EPC requires that all patentable inventions must be new, involve an inventive step and be capable of industrial application.

With respect to computer software and methods of doing business (what the European Commission describes as computerized applications of existing technical ideas), the proposed Directive reaffirms the current rule under the EPC, that programs for computers "as such" are not patentable.

In introductory text presented with the proposed Directive, the European Commission cites recent decisions of the European Patent Office's Boards of Appeal and courts of EU Member States, which have applied the EPC's requirements to computer-implemented inventions. The proposed Directive is seen as the European Commission's attempt to consolidate these decisions into a uniform standard for patenting computer-implemented inventions in the EU. In summary, the proposed Directive states that:

- Computer-implemented inventions can be considered patentable when they have a "technical character," *i.e.*, when they belong to a field of technology; and
- Computer-implemented inventions demonstrate an inventive step when they make a "technical contribution," *i.e.*, contribute to the state of the art in a technical field that is not obvious to a person skilled in the art.

For example, the European Commission states that all programs running on a computer (*e.g.*, a hardware device or network) have technical character and, therefore, pass the first hurdle. In other words, the proposed Directive would allow patents to be granted for a program operating on a computer, but not allow a patent for a program on its own, *e.g.*, isolated from the machine on which it runs. Accordingly, patent applications directed solely to the steps performed by a program would not be granted under the proposed Directive.

To assess a computer-implemented invention's "technical contribution," the European Commission states that consideration must be given to the difference between claims, as a whole, of a patent application directed to the invention and the state of the art. For example, an invention including both technical and non-technical features may still be patentable. To lend guidance to this consideration, the European Commission notes that technical contribution may result from:

- The problem underlying and solved by the claimed invention;
- The means (technical features) constituting the solution of the underlying problem;
- The effects achieved in the solution of the underlying problem; or
- The need for technical considerations to arrive at the computer-implemented invention as claimed.

Technical contributions have been found, for example, in a case where an x-ray device was controlled by a data processing unit and a computer employed an improved method to increase processing speed.

The U.S. Rule and Possible Impact of the Proposed Directive

In the U.S., the debate over the patentability of software appears to have been resolved by the U.S. Court of Appeals for the Federal Circuit's decision in *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368, where the Federal Circuit held, among other things, that software was within one of the U.S. patent laws statutory classes of invention. Quoting earlier decisions on patents directed to mathematical algorithms, the Federal Circuit stated that once within one of the statutory classes, an invention that uses a computer or software would be patentable if it constitutes a practical application of a mathematical algorithm, formula or calculation, because it produces a "useful, concrete and tangible result."

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Recent Amendments to the Uniform Computer Information Transactions Act

The National Commissioners on Uniform State Laws (NCUSL) recently approved a series of amendments to its three-year old Uniform Computer Information Transactions Act (UCITA). This model law would govern contracts involving information products and services and provide uniform commercial standards for transactions that involve, for example, software, on-line databases, digital multi-media products, and computer games. From the beginning UCITA provoked controversy, as both vendor and consumer advocates found objectionable provisions in the proposed law. Prior to the recent amendments, UCITA was adopted in Virginia and Maryland, while several states, including Iowa, North Carolina and West Virginia, enacted "bomb shelter" provisions to override the enforcement of UCITA within their jurisdictions.

The basic contractual law of UCITA remains unchanged after the revisions. The law governs "computer information transactions" which include contracts to "create, modify, transfer, or license computer information or informational rights in computer information." Although partially amended, UCITA still permits mass-market licenses, so-called "shrink-wrap" and "click-wrap" agreements, or any other conduct that assents to the formation of a binding contract. UCITA also recognizes the effectiveness of electronic records and signatures and confirms that, with certain limitations, e-agents (computer programs that create and perform contracts) may enter into binding contracts on behalf of the parties to the particular transaction.

Consumer critics complained that UCITA too heavily favored industry interests by facilitating the use of restrictive licenses. Critics were concerned that UCITA's silence on the post-payment disclosure of license terms, for instance remedy limitations or warranty disclaimers, provided a poor model for e-commerce. In addition, UCITA drew criticism by permitting the limited use of electronic self-help by software vendors.

The recent amendments address many of these criticisms. One important revision bans the use of electronic self-help by a licensor. This amendment expressly prohibits a vendor from using an electronic backdoor or other mechanism to disable its product when the vendor believes the user has breached the terms of its license. The amendments also limit the enforceability of some of the terms to which a consumer may assent with a mass market license. For instance, UCITA now provides that a term in a license will not be enforceable if a consumer did not have an opportunity to review the term before agreeing to the license. In addition, UCITA now provides that a consumer is entitled to a return of the product or services if the license requires payment before the consumer may review the terms of the license and, after such a review, the consumer does not agree to the license. Another important amendment permits a user to analyze and modify a lawfully acquired computer program to make it "interoperable" with another computer program. UCITA defines interoperablity as "the ability of computer programs to exchange information and of such programs mutually to use the information." As long as the goal of this reverse engineering is to enable such a mutual exchange, UCITA permits this form of consumer self-help.

In addition, these amendments make clear that UCITA does not supersede local consumer protection laws. The amendments specify that if there is a conflict between federal or a state's consumer protection law and UCITA, the more protective consumer law applies. But the UCITA revisions also note that some consumer protection statutes apply only to transactions involving goods and services, and computer information under current law (and UCITA's proposed law) has been defined as an intangible. Consequently, NCUSL calls for state legislatures to determine whether their current consumer protection laws need to be modified to apply to transactions involving computer information as well.

As with the Uniform Commercial Code, UCITA is intended to provide a set of default contractual principles that parties to a particular transaction may adopt or reject, in whole or in part. Consequently, as UCITA is adopted in more states (especially states with significant computer industries), a party may be subject to its provisions without UCITA having been adopted in that party's home state. W&D

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New IP Reforms

On November 2, 2002, the President signed the 21st Century Department of Justice Appropriation Authorization Act (Public Law 107-273). Generally, the legislation authorized appropriations for the Department of Justice for the fiscal year 2002; however, several provisions reformed aspects of U.S. intellectual property law.

Patents. The legislation broadens the U.S. Patent Law (Title 35, U.S. Code) concerning patent reexamination and clarifies the prior art dates of certain published patent applications. One provision states that the existence of a substantial new question of patentability in requests for prior art citations to the Patent and Trademark Office ("PTO"), or *ex parte* or *inter partes* reexaminations of patents, is not necessarily precluded by the fact that a patent or printed publication has been previously cited by the PTO or considered by the PTO, clarifying Sections 303(a) and 312(a) of the Patent Law. Another provision amends Section 315 by adding the Court of Appeals for the Federal Circuit as a venue where a third party requester may appeal, or

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be a party to an appeal, of a final decision on patentability. Other provisions amend the Patent Law so that (1) in addition to US patents, certain publications of US and international (PCT) applications may qualify as prior art references, and (2) certain international filing dates are considered to be US filing dates and may be used as the prior art dates of references to make rejections under either Section 102(e) or 103(a).

Trademarks. The legislation also implements the Madrid Protocol Treaty, as well as several technical reforms related to trademarks. With ratification of the Madrid Protocol Treaty, a US-based applicant seeking registration in the United States and other Madrid Protocol member countries will be able to file a single application designating the various countries of interest to the applicant. A Madrid filing will have one application, filed with one office, in one language, with one set of fees, resulting in one registration with one registration number and one renewal date, but covering all of the designated countries.

In addition, the legislation requires examination of applications filed under the Madrid Protocol to be examined within 18 months from filing. The Madrid Protocol will result in significant time and cost savings for US-based applicants, for both new registrations and maintenance of existing registrations. US trademark owners have to wait approximately one year after ratification to take advantage of the benefits afforded by the Treaty, while the PTO promulgates implementing regulations and the State Department deposits the instrument of accession with the World Intellectual Property Organization.

A few specific, technical reforms in the legislation include:

- Amendments to Sections 1(e), 8(f), 9(c), and 10(b) of the Lanham Act (which generally cover applications for registration, affidavits of use, applications for renewal, and assignments), changing the designation of a domestic representative upon whom notice or process in proceedings affecting a trademark may be served from a required to an optional designation; and

- An amendment to Section 44 of the Lanham Act, permitting foreign applicants seeking registration in the United States on the basis of registration in their home country to submit a copy of a certified copy of the foreign registration on which the application is based, rather than an original certified copy of the home country registration, which was the requirement.

Copyrights. The new law relaxes copyright restrictions to permit on-line educators and government offices to transmit more copyrighted works for use in on-line and web-based courses. The law amends the Copyright Act of 1976 by granting the same rights to on-line classrooms as those permitted in face-to-face teaching situations. The law now allows an instructor to perform or display reasonable and limited portions of copyrighted works as a part of "mediated instructional activities." The law requires that measures be taken to prevent the retention of the transmitted materials beyond the class sessions and the unauthorized dissemination of the materials beyond the on-line classroom. Institutions that offer on-line and distance education must safeguard the materials from being accessed by anyone other than the intended recipients, but may make and retain digital copies of the materials for the institution's on-line instructional use. W&D

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U.S. patent law does not impose an equivalent to the European requirement of "technical contribution" for computer-implemented inventions. U.S. patent law recognizes the patentability of software and business methods.

If adopted, how will the proposed Directive impact a software company's worldwide patent strategy? We recommend that companies continue to seek the broadest possible protection of their innovations. The different scopes of protection available in the U.S. and in Europe, however, will complicate the preparation of specifications (*i.e.*, the detailed description of the invention) and claims (*i.e.*, the statements setting out how an applicant defines its invention). This is particularly important when one document is the basis for filing both U.S. and foreign patent applications.

A specification must include disclosure sufficient to meet the U.S. and European patent requirements. In the U.S., the specification and claims should seek protection of business methods and the process defining the software application. In Europe, where the scope of protection may now be narrower, the specification and claims should seek protection of programmed computers and networks and processes performed by computers and networks executing the inventive software.

More than ever, an effective patent strategy must include consideration of the varying scopes of protection available to a company in each jurisdiction in which patents are sought. W&D

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