

# INTELLECTUAL PROPERTY & SERVICES

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iSchool Services Lecture Series  
April 11, 2007

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## HOW IMPORTANT IS IP RE: SERVICES?

- Not very important, at least historically
- Competitive advantage in services tends to be based on:
  - Skills, expertise of professionals providing the service (human capital)
  - Uniqueness (there's only one Luciano Pavaroti)
  - Ability to form "good" judgments tailored to particular situations
  - Good experiences with customers that created confidence, good will
  - Technology that enables effective delivery of service (e.g., press in laundry, sound system in concert hall)

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# INTELLECTUAL PROPERTIES

- Some state laws typically characterized as IP rights have some importance to services:
  - Trademarks: words or symbols that serve as source identifiers
  - Trade secrets: commercially valuable devices or information that give firms competitive edge in market
  - Historically, these were unfair competition rules
- Federal IP rights have played modest role:
  - Copyrights: for literary and artistic works
  - Patents: for inventions in the useful arts

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# TRADEMARKS

- Covers marks for services as well as trade marks for goods
  - Name by which service is known (McDonald's)
  - Symbols that signify that service (golden arches)
  - Slogans (McDonalds, I'm loving it!)
  - Trade "dress" (red packaging with yellow arches for french fries)
- In the US, marks arise from use of the name or symbol as a mark as a state law matter
- Federal registration of marks give nationwide protection
- TM law protects vs. competitive uses that are likely to confuse consumers
- TM dilution law protects famous marks from blurring

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## SERVICE MARK DISPUTES

- Taco Cabana v. Two Pesos: interior design elements of Mexican restaurant alleged to be confusingly similar to TP's trade dress (i.e., consumers would think TC was TP)
- 1-800-Contacts v. WhenU.com:
  - 1-800-Contacts = TM
  - When users of WhenU's sw searched for the 1-800 TM, pop-up ads for 1-800's competitors would appear along with 1-800's site
  - Not a "use in commerce" that infringed TM rights

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## TRADE SECRETS

- Widely used in services as well as in the manufacturing sector
  - Secret sauce for special dish at a restaurant
  - Algorithms for analyzing financial information for service providers
  - Detailed customer information not readily available from public sources
  - Process for preparing reports
  - Database of proprietary information

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## SERVICE DISPUTES

- Overwhelming majority of trade secret cases involve manufacturing entities
  - Inevitable disclosure case involving marketing director from Pepsi who went to work for competitor
  - His work was a service, though Pepsi is a product
- Some TS cases involve customer lists for services (e.g., insurance salesman took rolodex to new firm and solicited customers to leave the old firm for the new one)

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## COPYRIGHTS

- Essence of some services:
  - Public performances of plays, movies, or music for \$
- Implicated in other services:
  - Jazz played at restaurant or in hotel lobby where no cover charge for music
  - Showing movies on airplanes
- © exempts some service venues:
  - Performing dramatic play as part of face-to-face classroom teaching
  - Consumer grade stereo in small restaurant or bar

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## COPYRIGHT SERVICE DISPUTES

- *Huntsman v. Soderburgh*: ClearPlay provided software that allowed families to bypass sex, violence, foul language in movies; challenged as contributory infringement of derivative work right
- *Princeton U Press v. Michigan Document Services*: photocopying of © works for student coursepacks = infringing reproductions
- *Columbia Pictures v. Redd Horne*: renting DVD movies for viewing in in-store booths = infringing public performance of the movies

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## FUTURE OF © & SERVICES

- The intertwining of software with services and the marketing of software as a service suggests that © will be more important in the information services economy than in the manufacturing economy
- Yet, *Baker v. Selden* & progeny suggest that the service itself is beyond the scope of ©, no matter how original it may be

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## BAKER v. SELDEN

- Selden developed a new bookkeeping system, published pamphlet with forms showing ruled lines & headings, sample entries; Baker published book with similar forms
- SCT: © protected S's explanation of the system, but not the system itself, so B did not infringe
- Codified in 17 U.S.C. sec. 102(b): in no case does © extend to idea, procedure, process, system, method of operation in © work

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## PATENTS & MANUFACTURING

- Aimed at inducing investments in manufacturing technologies and to promote disclosure of inventions:
  - Inventor gets rights to exclude others from manufacturing products embodying the invention for limited time in exchange for disclosing the invention to the public
- Subject matter: machines, manufactures, compositions of matter (e.g., chemicals), or processes (traditionally limited to those that transform matter from one physical state to another)
- Have to apply to PTO to get exclusive right, disclose invention, distinctly claim it
- Examination by PTO to see if new, nonobvious & useful
- Until relatively recently, patents almost never issued to protect services

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## PATENTS & SERVICES

- Yet, patents have not been without some importance for service businesses:
  - Patents often protect tools that service providers use (e.g., pots & pans, computers, file cabinets)
  - But “first sale” rule generally protects customers (implicit license to use the patented invention from purchase of product embodying it)
  - If service provider inadvertently buys from an infringer, it can be liable for infringement too
    - But suits rarely brought vs. users

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## SOFTWARE PATENTS

- *Gottschalk v. Benson* (1972): algorithm for transforming binary coded decimals into pure binary form held unpatentable on subject matter grounds
  - Algorithm is unpatentable mathematical idea
  - Could perform this process with paper & pencil under 1 of the claims
  - “Process” patents only available for those that transform matter from 1 physical state to another
  - SCT was unanimous (9-0)

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## MORE ON SW PATENTS

- Diamond v. Diehr (1981): rubber-curing process that used sw as an element held to be patentable process
  - Improved curing of rubber because of frequent calculations of temperature enabled better timing of when to open molds
  - Still fit within the “transform matter” standard
  - Yet, SCT split on this 5-4
- Federal Circuit interpreted *Diehr* as permitting all software to be patented
  - Patent OK if process yields a concrete, tangible result

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## STATE STREET BANK (1998)

- PTO had issued patent to SSB on data processing system for implementing a certain investment structure
- Signature Financial Services was using it
- When SSB sued SFS, SFS claimed it was unpatentable subject matter
- Trial judge agreed, but Federal Circuit ruled SSB patent was valid, opened door to “business method” patents

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## BUSINESS METHOD PATENTS

- Substantial increase in applications:
  - 170 in 1995, 2700 in 1999, 7900 in 2000, 12,000 in 2001, many for Internet services
- Criticism of *State St Bank*:
  - Patents should only be available for technology innovations
  - No need for patent incentives to develop business methods
  - Lack of prior art in PTO means many “bad” patents will issue
  - Big firms will patent to exclude small startups
  - Patent trolls will buy or get to “hold up” legitimate businesses

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## RESPONSES

- Congress created “prior user right” for firms that had already been practicing the patented method if challenged by patentee
- PTO reforms:
  - Built prior art database on business methods
  - “Second eyes” examination
  - Retraction of some “bad” patents
  - 36% grant rate for such patents (much lower than standard grant rate)

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## SCT MAY REVIEW

- SCT took *Metabolite v. Labcorp.* case on patent SM issue, but not cleanly raised so changed its mind, dropped the case
  - 1 claim in patent forbade doctors to inform patients that certain level of chemical in their blood meant they had a certain disease
- MS v. AT&T: is shipment of master disks of software an export of components for assembly abroad that infringes 271(f)?
  - At oral argument, many ?s about sw patents

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## CONCLUSION

- IP has not played a very significant role in services economy so far
- Trademark & trade secrets have been far more important than patent or ©
- Copyright may become more important over time because of the role of software in services
- Unless SCT reviews business method or sw patent on subject matter grounds, likely that patents will play an increasing role in services economy
  - It's debatable whether this is a good or a bad thing

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