INTELLECTUAL PROPERTY & SERVICES

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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)
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

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
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

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
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)

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
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
• Columbia Pictures v. Redd Horne: renting DVD movies for viewing in in-store booths = infringing public performance of the movies

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
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

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
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

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)
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

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
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

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)
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

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