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Waiting for Bilski

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Law360, New York (February 01, 2010) -- On Nov. 9, 2009, the U.S. Supreme Court heard oral arguments in *Bilski v. Kappos* on the issue of what should be the scope of patent-eligible subject matter. While the Supreme Court has not yet issued its decision, many believe the court is likely to be critical of the standard set forth by the U.S. Court of Appeals for the Federal Circuit in the decision below.

What is interesting is that while most believe that the Supreme Court will be critical of that decision, there is a wide range of opinions as to what that criticism will be.

- Some have suggested that the Federal Circuit's decision defined patent-eligible subject matter too narrowly.
- Some have suggested that the Federal Circuit's decision defined patent-eligible subject matter too broadly.
- Some have suggested that the Federal Circuit's decision is simply off base.

At this point in time, it is difficult for anyone to guess what the Supreme Court will do. Nonetheless, we all have difficult decisions to make concerning what to do with business-related and computer-related inventions while we wait. This article provides some guidelines on how to deal with such inventions during this time while the world waits for a decision.

Potential Impact of the Supreme Court's Decision

Since the State Street decision issued in 1998, the number of patents which were issued applying the "useful, concrete and tangible result" test reiterated in that decision has been on the order of at least hundreds of thousands.

In view of the Federal Circuit's decision in *In re Bilski*, a number of district courts have rejected the patent eligibility of claims which were examined as complying with the State Street test, but purportedly did not comply with the Bilski test.

Thus, depending upon how the Supreme Court resolves the Bilski case, there is a real concern that the impact of such a decision could be profound not only for future patents that may or may not issue, but also for existing, issued patents. In the past, the Supreme Court has not been afraid to announce retroactive rules and it may do so in Bilski.

Since it is unclear what decision to expect, we generally recommend that patent holders and seekers in this area should, to the extent practical, hedge their bets in their patent prosecution strategies.

Those that elect to drop all business method patent applications may save prosecution costs, but could end up big losers down the road if the Supreme Court adopts a broader rule for patent-eligible subject matter than the Federal Circuit did.

However, to the extent that support can be put in a specification to tie an invention to a particular computer or machine, or to show that matter is somehow transformed, including such disclosure is recommended.

Some have suggested that innovators in these areas should consider trade secret protection instead of seeking patent protection. While trade secret law can potentially be used as an alternative to patent protection prospectively, it is too late to rely upon trade secret law for the hundreds of thousands of already issued patents and additional published patent applications.

Trade secret law also continues to have historical disadvantages: it requires vigorous maintenance; at times can be difficult to define; and can potentially result in someone else obtaining a patent which reads on the trade secret protected innovation.

At least until the uncertainty is resolved, it still makes sense to hedge the risk by continuing to seek patent protection. However, in such circumstances, it may also make sense to forego non-U.S. rights, and maintain the application as a "Do Not Publish" application during pendency.

After all, depending upon how the Supreme Court resolves Bilski, and whether inventions are claimed in accordance with the Supreme Court's new mandates, the value of such patent portfolios may skyrocket.

Depending upon the results of the Supreme Court's decision, we note that there could be a significant impact on some existing royalty-bearing license agreements.

If licensees paying ongoing royalties believe that the Supreme Court's decision invalidates the patents underlying their agreements, there is a potential for a lot of litigation in the future.

The Supreme Court's decision in MedImmune has made it easier for licensees to challenge such agreements without exposing themselves to the harsh results of termination of the agreement if they are wrong.

One way for licensors to avoid such risks is to receive a lump sum payment up front, instead of ongoing royalties. Another way to minimize such risks can involve using contractual language in an agreement that provides a disincentive for licensees to unsuccessfully challenge the validity of the patents.

Interim Steps to Protect Your Portfolio

Based on historical precedent by the Supreme Court, we expect that the Supreme Court will likely find that the Federal Circuit's test, while incomplete, is at least a safe harbor. Thus, business-related inventions that are tied to actual machines (at least in a meaningful way) are likely to survive patent-eligibility challenges after Bilski.

For now, we recommend the following interim steps be implemented in all patent prosecution involving business-related and computer-related inventions to minimize risk for the future and increase the likelihood of a patent issuing and ultimately being enforceable down the road.

As a general rule, if possible, it is best to conform to the PTO's positions on patent-eligibility. By conforming to the PTO's positions, an applicant is more likely to both expedite a patent's likelihood of issuance, and probably be within a safe harbor of what will ultimately be considered patent-eligible.

- Include disclosure to tie the invention to a computer or other machine. For example, if the invention is related to a financial service product which is electronically traded, include disclosure of the computer system used to electronically trade the product. If the invention is related to a product which requires a complex calculation, include disclosure of the computer system that performs the calculation as well as the algorithm used in the calculation.

- Don't claim software as software. Software can instead be claimed as programming stored on a computer readable medium, that is run on one or more processors. Process claims which act on various parts of the computer system (e.g., a processor, a communications portal, a computer readable medium, etc.) are more likely to pass muster. Beauregard claims remain acceptable to the PTO as patent-eligible subject matter.
- Don't use fancy forms of claims. Ferguson tried to claim a paradigm which is not one of the four statutory classes of patent-eligible inventions.
- Don't use fancy definitions in the specification for terms like computer readable medium. It is safer to use the ordinary meaning of computer readable medium.
- Have "computer implemented processes" include physical structures in the method steps. Try not to use only the preamble to establish that the claimed process is tied to a machine.
- For non-computer implemented inventions, try to tie the invention to other tangible media, and to transform physical objects, e.g., entering into a written or electronic agreement.
- When arguing patentability, make sure to reference Supreme Court decisions. Merely relying upon the latest Federal Circuit, BPAI or district court decisions may not be good enough down the road if the law changes.

Conclusion

It is important to keep in mind that many experts believe that the Federal Circuit's decision should be modified by the Supreme Court for vastly varying reasons.

For example, some experts, like us, believe that it was too narrow, in that the machine-or-transformation test is at best a safe harbor and not an exclusive test. Others believe that it was too broad. Some believe it just misses the mark.

Everyone expects that the Supreme Court took the case to modify the test announced by the Federal Circuit. The fact is that no one is certain how that test will be modified. At this point in time, at least until the decision is announced, it would be a strategic mistake to assume the decision will go any particular way. Thus, it is best to continue to hedge your bets during this period of uncertainty.

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Charles Macedo was principal attorney, along with firm partner Anthony Lo Cicero and associate Jung S. Hahm on an amici curiae submission to the Federal Circuit in *In re Bilski*. Mr. Lo Cicero, Mr. Macedo and Ms. McCaffrey submitted an amici curiae brief on behalf of various mid-sized and smaller entities in the financial service, e-commerce and Internet industries to the Supreme Court in *Bilski v. Kappos*.

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