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Lack Of Guidance In Bilski Will Spark Suits: Attys

By **Erin Coe**

Law360, New York (June 28, 2010) -- While the U.S. Supreme Court has decided to preserve the viability of business method patents, many lawyers are fuming that the Bilski ruling offers a dearth of practical guidance and is likely to trigger more litigation over what is patentable.

The high court on Monday unanimously held that Bernard Bilski and Rand Warsaw's application for a method covering hedging risks in commodities trading was too abstract to be patent eligible, but determined in a narrow 5-4 vote that business methods are not excluded from patent protection.

Many feared that the Supreme Court was poised to bring an end to business method patents, and if Justice John Paul Stevens and the other three justices had gotten their way, that could have been the case. But instead, Justice Anthony Kennedy was able to win over the majority of the court and leave the door open for business methods.

While disappointed that the claims at issue were found to cover an abstract idea, Bilski's attorney J. Michael Jakes said he was pleased that the Supreme Court agreed with the petitioners that business methods are not excluded from patentability and that the U.S. Court of Appeals for the Federal Circuit's machine-or-transformation test is not the exclusive test for patent eligibility.

The ruling allows for the possibility that software, diagnostic medical tests and other business methods can be patented and is a return to the status quo before the Federal Circuit's 2008 en banc decision came down, according to Jakes, a partner of Finnegan Henderson Farabow Garrett & Dunner LLP.

"People in those fields view this as a positive decision because it removes the barrier to patentability," he said. "The Supreme Court held that the machine-or-transformation

test might be OK for physical or tangible innovations, but for software, diagnostic medicine techniques and other inventions, it may be too limiting.”

Gene Feher, a member of Mintz Levin Cohn Ferris Glovsky & Popeo PC, said he considered the decision a positive development for the patent bar and the business and technology communities because it removes the cloud over whether such processes in general are patentable.

“I believe that there will be a huge sigh of relief from the patent bar that the currently pending business method patent applications in the U.S. Patent and Trademark Office will not be categorically rejected simply because they are directed to business methods,” he said.

However, many experts felt that the Supreme Court had failed to take a stand on defining an appropriate test for patent eligibility of a process, and that the decision would lead to further litigation and increased legal counseling down the road.

“It was hoped that the case would end business method patents. Instead, the court effectively punted the issue while relying on its past precedent,” said Yar R. Chaikovsky, a partner of McDermott Will & Emery LLP.

The Supreme Court rejected the machine-or-transformation test as the sole test of patentable subject matter under Section 101 of the Patent Act in favor of language in Section 100 and “guideposts” of previous decisions, including *Diamond v. Diehr*, according to Joseph M. Barich of McAndrews Held & Malloy Ltd.

“Unfortunately, by declining to adopt a clear standard, the court is virtually guaranteeing that compliance with Section 101 will be litigated with increasing frequency because if a claim is not clearly in compliance with the statute, it is often in a defendant's interest to argue it,” he said.

But plaintiffs also have plenty to seize upon, as the majority suggests that many business methods might be unpatentable as abstract ideas and states that recent congressional legislation on business method patents “does not suggest broad patentability” for them, according to Jeanne Fromer, a professor at Fordham Law School.

“The biggest winners in Monday's decision are the many patent lawyers who will be

paid by clients over the next many years to try to understand and work out the impact of Monday's fractured decision, which leaves unresolved many important issues, like the patentability of software and specific guidance on how to analyze whether business methods are patentable," she said.

The decision creates so little guidance that a Bilski defense is likely to become the defense "du jour," and it will be raised not only in cases involving a business method, but in cases over patents relating to software and medical processes, according to Steven M. Bauer, a partner of Proskauer Rose LLP.

"There is no bright-line test, and there will be no ability to ever give a client certainty as to whether something is patentable or not," he said.

The Federal Circuit, in an en banc ruling in October 2008, had attempted to do just that, rolling out a test requiring that a patentable process either be tied to a machine or involve a transformation. Using that test, it tossed the patent application filed by Bilski and Warsaw.

The inventors appealed, and after the Supreme Court granted their petition for certiorari in June 2009, about 70 amicus briefs poured in from technology giants, software businesses, biotechnology and medical companies, law associations, and financial services firms.

On Monday, although Justice Kennedy found that the machine-or-transformation test is a "useful and important clue, an investigative tool, for determining whether some claimed inventions are processes under [Section 101 of the Patent Act]," it is not the sole test for deciding whether an invention is a patent-eligible process.

The majority pointed out that there were reasons to doubt whether the test should be the only criterion for determining patentability of inventions in the Information Age.

"The machine-or-transformation test would create uncertainty as to the patentability of software, advanced diagnostic medicine techniques and inventions based on linear programming, data compression and the manipulation of digital signals," according to the majority opinion.

The majority also determined that business methods are not excluded from patent protection. But Justice Stevens and three other justices argued that business methods

were not patentable, noting that while the scope of patentable subject matter was broad, it was not endless.

Given the closeness of the vote, another showdown over the patentability of business methods is hardly out of the question, Chaikovsky said.

“Keep watching the court makeup over the coming years as this will affect whether business methods are patentable in any future opinion,” he said.

One thing is for certain: The Bilski decision leaves for another day the precise scope of eligible subject matter, including what, if any, business methods might be eligible for patent protection, according to Ed Anderson, a partner of Sidley Austin LLP.

“Bilski may be more remembered for what it didn’t decide, than the standards it sets for future cases. Applying this decision to particular cases requires thoughtful legal guidance,” he said.

Bilski is represented by Finnegan Henderson Farabow Garrett & Dunner LLP.

The case is Bilski et al. v. Kappos, case number 08-964, in the U.S. Supreme Court.

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