

Supreme Court may invalidate software patents

By Darlene Darcy
Staff Reporters

Acquiring, using and defending software patents has become big business — sometimes playing a vital role in a company's success — but that could all change if the Supreme Court decides software can no longer be patented.

If the justices make that decision, following oral arguments that begin Nov. 9, the ruling could drastically alter the competitive landscape of the Washington area's software industry and other sectors of the local economy as well.

The case, *Bilski v. Kappos*, marks the first time in more than 25 years that the Supreme Court will look at the criteria used to determine whether a business method or process — such as the series of actions that software performs — can be patented. Lawyers say the court case means change is inevitable and probably won't favor software developers seeking the security of patents.

"Software and biotech patents are at risk of all being invalidated by the Supreme Court ... many thousands [are] held by local companies," said James Carmichael, a principal at Miles & Stockbridge PC in Baltimore and a former administrative patent judge and examiner-in-chief for the U.S. Patent and Trademark Office.

Invalidating those patents could "kill the incentive to invest in research and development going forward," he said.

That's just one concern among many patent-holding companies, including D.C.-based education software company Blackboard Inc.

"As a software company, we are investing millions of dollars in software development, and you need to be able to protect that investment," said Matthew Small, Blackboard's general counsel. "As long as we have that protection, we're fine."

Blackboard has been involved in several patent infringement lawsuits with at least

Case history

Bernard Bilski applied for a business method patent in April 1997. With it, Bilski — the CEO of Pittsburgh-based WeatherWise USA Inc., which sells software to help lower energy costs for utility companies — hoped to protect his process for mitigating the risks of energy price changes. The Patent and Trademark Office rejected his application. He appealed, but the PTO stated in September 2006 that Bilski's method was just an abstract idea, not eligible for a patent. In October 2008, the U.S. Court of Appeals for the Federal Circuit upheld the rejection based the "machine or transformation" test, which says an abstract process can be patented if it requires a particular machine or results in a physical transformation. Bilski is arguing to the Supreme Court that the machine or transformation test is too narrow.

five companies and individuals since 2001, as both plaintiff and defendant.

In the *Bilski* case, Supreme Court justices will question a particular test used to decide if a process may be patented. The test says a process that uses a specific machine or transforms the physical state of something can be protected by a patent.

Critics of the test believe loose interpretations of it have led the patent office to award too many weak patents that disrupt fair competition and innovation. Now that test, or a new one, might be interpreted in a way that could shatter the validity of software patents or make them harder to acquire and defend.

"Putting thousands of issued software patents into question will cause a lot of uncertainties in the market and uncertainty is always a bad thing in business," said Marc Kaufman, an intellectual property and tech partner at Nixon Peabody LLP in D.C. "It's highly unlikely that the Supreme Court will say that software ... is banned from patent eligibility," but any decision biased against software makes it harder for companies to protect their innovation and effectively compete in the marketplace.

In the opposing view are tech companies that believe patents stifle innovation. That camp includes Red Hat Inc., a major open source software brand in Raleigh, N.C., with offices in McLean, which had \$184 million in sales during the second quarter of its fiscal 2010 that ended Aug. 31.

Open source refers to software code that isn't patented and can be free or licensed to outside developers to be modified or built on. Kaufman argues that open source has been a catalyst for patent applications from companies that build on top of open source software code, then want to protect their particular modification or improvement on it.

"Some of the parties pushing for a narrow interpretation of software patent tests are doing it because they're behind the curve on protecting their own innovations and don't want others to have weapons," he said. "It's an opportunity to equalize the field."

Still other local companies aren't ruffled by the punches the court might throw and haven't taken a hard stance on the issue.

"It's not a huge concern for us," said Scott Hoffpauir, co-founder and chief technology officer of BroadSoft Inc., a Voice Over Internet Protocol software provider in Gaithersburg. "Typically in our industry you don't see our competitors coming against us."

BroadSoft was awarded its first patent in 2003, currently holds four and has about 10 pending — most of those acquired through its purchases of three companies in the last year and a half.

Despite a growing portfolio of patents, "we certainly don't rely on our patents," Hoffpauir said. "It's more about how fast you can [innovate] and how good you can do it."

The return on investing in patents "is not very good," he added, noting that BroadSoft could spend as much as \$100,000 to get a patent application filed. According to some industry estimates, the cost of software patent litigation is more than \$11 billion annually.

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