

Summer 2009

## Debate on In Re Bilski

Lauren Katzenellenbogen

Bob Irvine

David Donoghue

---

### Recommended Citation

Lauren Katzenellenbogen, Bob Irvine, and David Donoghue, *Debate on In Re Bilski*, 7 NW. J. TECH. & INTEL. PROP. 260 (2009).  
<https://scholarlycommons.law.northwestern.edu/njtip/vol7/iss3/1>

This Conference Proceeding is brought to you for free and open access by Northwestern Pritzker School of Law Scholarly Commons. It has been accepted for inclusion in Northwestern Journal of Technology and Intellectual Property by an authorized editor of Northwestern Pritzker School of Law Scholarly Commons.

N O R T H W E S T E R N  
JOURNAL OF TECHNOLOGY  
AND  
INTELLECTUAL PROPERTY

**Debate on In Re Bilski**

*Lauren Katzenellenbogen, Bob Irvine & David Donoghue*



## Debate on In Re Bilski

**Lauren Katzenellenbogen,\* Bob Irvine,\*\* & David Donoghue\*\*\***

¶1 MR. EWERTD: Good morning. Thanks for coming. My name is Jake Ewerdt. I am the Editor-In-Chief of the Northwestern Journal of Technology and Intellectual Property. I would like to welcome all of you to our fourth annual symposium.

¶2 Just so you know, a transcript of this symposium will be published, so look for it online in Westlaw. Now, this journal is only seven years old, but we have grown significantly over the past few years. We have been cited by Congress, the Federal Circuit, and we were recently cited in law review articles produced to the Supreme Court, produced for Federal Circuit, and many other places, and it is because of the students, our sponsors, Northwestern Law, and the presenters like we have here today that we are growing so quickly.

¶3 On that note, I would like to specifically thank our sponsors. Our platinum sponsor, McDonnell Boehnen Hulbert & Berghoff, has been very involved in many aspects of the symposium. From the very beginning, they have helped us find topics and planned the events, and I would especially like to thank the three attorneys from MBHB who are speaking here today, Bob Irvine, Chris Singer, and Mike Baniak.

¶4 I would also like to thank MBHB who made these blogs for everybody in the symposium, they really got the word out for us, Patently-O, which is run by Dennis Crouch, ex-MBHB attorney who now teaches at the University of Missouri School of Law, and patentdocs.com, which is run by four attorneys at MBHB.

¶5 Also our gold sponsor, Knobbe Martens Olson & Bear, has been very supportive. Knobbe Martens has been recognized as the third largest intellectual property law firm in the United States, and we are looking forward to a continuing relationship with them, and we are very excited to have Lauren Katzenellenbogen, a partner at Knobbe Martens, participating in the upcoming debate.

¶6 And our last sponsor is the Intellectual Property Law Society student group, who has been our partner in promoting intellectual property here at Northwestern Law for many years.

¶7 Finally, I would like to give a round of applause to Mike Hammer, who has worked hard on this symposium all year, but he is not in this room right now. So we can hold off and -- Mike Hammer, everyone. All right. Now, before we get started, I have two quick announcements to make. First, if any attorneys are here who want CLE credit, make sure you see Mike for the City's forms. And second, we are going to have a short coffee break that we had to schedule between the 2:00 and the 4:00 panels.

¶8 And now I am excited to introduce the Dean of Northwestern Law, who will be giving welcoming remarks. Please join me in welcoming Dean Van Zandt. Thanks.

---

\* Partner, Knobbe Martens Olson & Bear LLP

\*\* Partner, McDonnell Boehnen Hulbert & Berghoff LLP

\*\*\* Partner, Holland & Knight LLP

¶9 MR. VAN ZANDT: You only get one coffee break? Sorry, guys. I see some of you definitely drinking coffee. Well, I think this is a culmination taken from other purviews working on this journal. It's been a spectacular journal for us. From a very small start, it's really grown and it is certainly impressive in terms of how it has been put together over the years, and it really due to the hard work of not only this generation but prior generations of students who put this all together, and also through the support of various sponsors we have, thank you for responding, the sponsors who are helping today.

¶10 This is an exciting time in many different ways, both plus and minus, for law students. You know, it's a tough time in some ways. On the other hand, you know, particularly for people who have the kind of skills that I have seen, it can get to where it is not that bad. In fact, it's a pretty good time to be out there, because this really is a booming -- if you will look at the different categories in the practice, it is really one of the still booming areas in legal practice. So hopefully you are all going into that area, and I am sure you are all going to have great careers through it.

¶11 Lastly, I think this is just exciting to bring people both from the practice worlds and academics as well as the students together to really learn more about it. We try to do this throughout, and we have lots of programs at Northwestern.

¶12 This is something that really makes a difference in terms of learning for the students, and I think it could for everybody else as well. So I hope you enjoy the day. It looks like you have some great things on here. I wish I could stay and learn something, because I have seen Jacob on some of the issues, but I'm sure you are going to have a great time, and, again, thank you all for being here. Thank you.

¶13 MR. NARAYEN: I want to thank Dean Van Zandt for his welcoming remarks and hope that he gets a chance to look at our comments at the end of the day on the transcript. We are going to turn now to our first event, which is going to be a debate on the recent Federal Circuit case in re Bilski.

¶14 In 2008, the divided Federal Circuit sitting en banc upheld the patent offices' rejection of a patent claim describing a business method for a hedging strategy for commodities exchanges. At the heart of the Federal Circuit's decision was the issue of when a process is patentable.

¶15 The Court relied on the machine or transformation test of patentability, which requires two elements: First, that the process be tied to a particular machine or apparatus, and the transformation, transforming a particular article into a different state or thing.

¶16 Our panelists are going to include Mr. David Donoghue, who is a partner of Holland & Knight practicing patent litigation. He is the creator of the Chicago IP Litigation blog. He graduated from Georgetown University Law Center, and also before Holland & Knight, he practiced at Delphi, one of the country's largest automotive suppliers. He founded Delphi's technology licensing and litigation group and also taught as an adjunct professor at the Loyola University School of Law.

¶17 Our second panelist will be Mr. Bob Irvine, who is a partner at McDonnell Boehnen. Before MBHB, he was the senior intellectual property counsel at a medium-sized networking company. He also worked as a research engineer at a Fortune 100 telecommunications company and received his JD right here at Northwestern.

¶18 Our final panelist will be Ms. Lauren Katzenellenbogen, who, as Jacob mentioned, is a partner at the Orange County office of Knobbe Martens Olson & Bear. She has spent most of her time in high-stakes patent litigation and false marketing and

counterfeiting disputes. She got her JD from Harvard and has been named one of Southern California rising patent litigation stars.

¶19 I will turn it over now to Mr. Donoghue, who will moderate our debate.

¶20 MR. DONOGHUE: Thank you very much. First, I want to commend the journal on the timeliness of this debate. Anyone who is following the Bilski decision -- and I suspect that includes everyone who is interested or involved in patent law right now -- is aware that the amicus briefs started to come into the Supreme Court this week supporting or against the cert petition for the Supreme Court to reconsider the Federal Circuit's unbound decisions.

¶21 I also want to make a point that is made in all of the promotional materials. The views expressed today don't necessarily represent either panelist's views or their firms' views. For those of you who are law students, you may not appreciate the importance of that yet, but it's very hard for a lawyer to take any of their own positions on these issues, because each client in each case has different issues, and so without those kind of caveats, most practicing outside attorneys who don't have a single client couldn't participate in debates like this. So on behalf of the journal and everyone else, I thank you for being willing to have this debate and take that little bit of risk.

¶22 With that, I have the easy job as a moderator. I am going to turn the presentation over for remarks on both sides and then we will ask some questions and then we will follow up with your questions towards the end, and I don't know how the

¶23 We can start with yours.

¶24 MS. KATZENELLENBOGEN: Well, this is mine. That looks like mine.

¶25 MR. DONOGHUE: Yes. So Lauren will first present the case against software and business method patents.

¶26 MS. KATZENELLENBOGEN: So I am Lauren Katzenellenbogen, and I am here to debate the side against patenting business methods, and so I would like to start with a little bit of background.

¶27 Section 101 of the patent laws defines what is patentable subject matter. Patentable subject matter under Section 101 is any new and useful process, machine, manufacture, or composition. Now, that sounds really broad, particularly the term "process." That is the part that business methods generally fall under. And it has been argued that process should encompass all business methods, even abstract ones not tied to any physical steps.

¶28 But historically, patentable subject matter had to be tied to creating manufacturers, machines, and compositions of matter, and Judge Dyk's concurrence in the Bilski opinion actually goes into a really detailed history of how our patent laws came about, but our patent laws were generally modelled after the English system, and it's interesting, even when Watt wanted to patent the method of improving the steam engine, even that caused a great debate as to whether any process should be patentable at all back in the English courts.

¶29 So our laws actually do definitely say that processes are patentable, but to take this term "process" and say that it applies to abstract business methods is coming a long way from where we started where it was debatable whether any process, even one clearly tied to manufacturing, could be patentable subject matter.

¶30 So in 1981, the Supreme Court identified three categories of unpatentable subject matter, and these include laws of nature, natural phenomena, and abstract ideas, and this is important because we have to remember the purpose of the patent system.

¶31 The constitutional purpose of a patent system is to promote science and the useful arts, so technology, to permit technology, and patent laws grant a monopoly for a limited time in exchange for a disclosure of invention and to incentivise invention.

¶32 We generally do not like monopolies. We have lots of laws and many circumstances preventing monopolies. But here we have made a trade-off. We are creating a monopoly because we think that it benefits the social good because the social benefit of the invention is so great.

¶33 We don't need that incentive to promote business method inventions because people are going to create business methods whether they are incentivised or not. It's a better way of doing business that is inherent within a patent, and it doesn't promote social good enough to justify granting a monopoly.

¶34 Many technologies require huge research and development expenses up front, such as medical devices, pharmaceuticals, pharmaceutical machines. These are the types of things we need to incentivise. It wouldn't be worth developing these technologies for people if they had to expend a huge amount of credit and weren't guaranteed a monopoly for a limited amount of time to recoup their expenses. That is why we have patents, that is why we need patents, but we don't need them for business methods.

¶35 The second problem with allowing business methods to be patentable is how do you determine whether something is a patentable business method or an abstract idea. I think people generally agree that abstract ideas and laws of nature should not be patentable subject matter because that would deter the advancement of technology. It would go against what patent laws were designed to promote because it would limit the ideas out there for people to use in developing technology.

¶36 So prior to 1998, when the Federal Circuit decided *State Street*, people generally thought that business methods were not patentable, that they were tied with physical stature and machines, something along that nature.

¶37 In the *State Street* decision, the Federal Circuit articulated the useful, concrete, and tangible result test, and that was the test for patentability of business methods up until this recent *Bilski* decision. That has created a lot of confusion as to what is patentable.

¶38 The patent office has been inundated with thousands of business method patent applications, and that takes an enormous amount of resources, resource that could be used for the patent office to examine more worthwhile patents, and it is difficult for people, for courts, for the patent office to determine what is patentable subject matter.

¶39 Now, recently we have the *Bilski* decision to try and clarify the issue of what is patentable, but there is still an issue, because the *Bilski* decision came out with the machine or transformation of matter test, which we will talk about a little further in a little more detail in the next slides.

¶40 But essentially to be patentable now, something has to be tied to a machine or apparatus or be a transformation of matter, and there are still issues with this test because how do you determine if the claim that describes what is patentable is sufficiently tied to a machine or apparatus to take it from being an abstract idea to patentable subject matter?

¶41 Is it enough to simply have the claim with the abstract idea and a personal computer? Does the personal computer have to do some important function? Where is the line? Do you need something more than just a personal computer?

¶42 And the same with the transformation of matter. We need a transformation of matter test in addition to the tied to a machine or apparatus because there are things like

chemical depositions that are combinations of elements and compounds that aren't business methods that don't involve any machine or apparatus.

¶43 But when you take transformation of matter and apply it to data or abstract ideas, how do you determine whether something is transforming matter? And if a business method has no physical steps, how do you know whether it is patentable?

¶44 And so in the *Bilski* decision, the Federal Circuit considered whether a process must result in the physical transformation of an article or be tied to a machine to be eligible and whether *State Street* should be overruled in any respect, and the decision confirmed that *State Street* is not overruled, there is no business methods exception to patentable subject matter, but it did overrule the part of *State Street* about the useful concrete and tangible results tests. That is no longer a test. Now we have the new machine or transformation test.

¶45 So, as I said before, this still leaves issues that are there to decide, and the Federal Circuit didn't give us a whole lot of guidance, particularly in what tied to a particular machine means.

¶46 In the *Bilski* case, the patentee or the applicant admitted that his invention in his claims were not tied to a particular machine, so we still don't have a whole lot of guidance on that. As far as the transformation prong, the Federal Circuit did go into a discussion of what satisfies that and said that if data represents a physical article, then that will satisfy the transformation prong.

¶47 And the Federal Circuit held that *Bilski's* invention, which involved a hedging scheme, basically matching up buyers and sellers of commodities at a certain predefined price, did not meet this transformation prong. But it's very difficult to understand. There is clearly a transformation. There is contracting going on. There are conversations going on. It could very easily be argued that that is a transformation.

¶48 So really how do you draw the line? How do you decide whether something meets the transformation of matter prong, whether there is a transformation of data, whether there is a contract? How do you decide if that meets the test and whether it's a patentable business method? So that is why business methods should not be patentable. Thank you.

¶49 MR. IRVINE: Good morning. I'm Bob Irvine. I am here to present the side for business method patents.

¶50 Again, as Lauren laid out the background, the whole purpose of the patent system is to promote the progress of science and the useful arts as set forth in the constitution. What the patent system provides is a quid pro quo to reward inventors, providing them an incentive to invent by giving some period of exclusivity for their invention. Clearly, it benefits society in that these inventions are disclosed to the public and later inventors can use those inventions after the term expires.

¶51 An important thing to recognize here is that, as technology has evolved, the nature of our economy has shifted from a manufacturing economy to one that is largely service-oriented. This data here on the screen from the CIA world book actually demonstrates that nearly 80 percent of our economy is service-based, and it simply doesn't make sense at this point to wholly outlaw the protection of the intellectual property that resides in the service sector.

¶52 So I think the question really is, are business methods fundamentally different? The inventions in this area, are they any different from traditional technological developments?

¶53 For example, are business method inventions susceptible to freeriding?

¶54 In other words, if an inventor came up with an improvement, without protection of that invention, would some other company be able to come along and capitalize on that invention without the inventor having any recourse? Of course, there is the freeriding problem.

¶55 Secondly, do business method inventors need incentives? Absolutely they do, and in addition, business method inventors, they are just as creative and collaborative as traditional engineers.

¶56 For example, in the financial services industry, which has been impacted by the *Bilski* decision by the Court's dismissal of options as mere legal obligations that are some abstract entity not worthy of patent protection, if you are not a major player, such as Fidelity or Prudential, or Barclay's Global Investors, you don't have the resources to roll out new products and new systems and new methods of doing business. You simply don't have the resources as an individual or even a medium-sized company. Typically, these individuals would partner with large companies to make these inventions available to the public.

¶57 Well, if the inventors don't have any way of protecting this invention, there is no incentive for them to even work in this space and to try deal with large companies. The inventions would just be taken over by the company and implemented as they see fit. Nondisclosure agreements are not anywhere near strong enough to protect that kind of disclosure, and they don't provide the protection required in order to incentivise the inventors.

¶58 So one other question is, are business method patents susceptible to abuse, just like patents in any other area of technology? Of course they are, and I think that what we are seeing here really is kind of a backlash, if you will, in the media. Stories about the Amazon One-Click patent got such wide publicity, and people got the idea that this just seems fundamentally unfair that something so simple as a method of clicking on an icon and having that be the only action involved in purchasing a product, it doesn't seem like that should be patentable subject matter.

¶59 But I submit that what happened there is possibly more a failure of the other aspects of determining patentability, under sections 102 and 103 of the patent statute, is it a novel invention, is it a non-obvious invention and therefore worthy of protection. The question should not have been is this patentable subject matter?

¶60 So when you look at the Amazon One-Click patent, you can have a debate about whether that is novel and non-obvious. You can look at priority. You can consider that in the trading pits, people were buying things all the time simply by just a wave of the hand, or at auctions where you raise a paddle to put in a bid, but that is a different question, a different discussion than whether this is subject matter worthy of patent protection and whether the inventors need that protection to provide the incentives to continue to innovate in this space.

¶61 So I think it helps to understand a little bit of the background here, the history. Back in 1908, the Second Circuit held that a certain system of making sure that waiters weren't embezzling funds held that this subject matter was not patentable, and then a

number of cases evolved over the years, the Supreme Court got involved kind of tangentially when they were dealing with the question of what is patentable subject matter. Some of the points that Lauren raised about whether laws of nature should be patentable, certainly they shouldn't be.

¶62 But then the Federal Circuit in the State Street Bank case came along and said this whole idea of trying to carve out a niche for business method patents as not being worthy of patent protection was ill-conceived.

¶63 And so in re Bilski then is, I believe, a response to this backlash that we have seen because of what people perceive as abuses or misuses or just inappropriate issuing of patents by the patent office.

¶64 And so what the Federal Circuit did is they went back to the Supreme Court precedent. I think that they saw some of the language coming from the Supreme Court in cases such as the *Metabolite* case where cert was dismissed, and I believe it was Justice Breyer who weighed in on certain aspects of the business method patents or at least some related concepts.

¶65 And I think the Federal Circuit sought refuge in the earlier precedent of, in particular, *Gottschalk v. Bensen* where the Supreme Court held that really what you need to look at is the preemptive effect of a patent to a certain invention and to make sure that any patents that are issued don't cover too much ground, they don't cover fundamental principles, they don't cover laws of nature.

¶66 Essentially the test, as I read it, is there has to be some meaningful limitation to the claim so that the footprint the patent covers isn't too large, or isn't unreasonably large.

¶67 Well, instead what the Federal Circuit did is they gave lip service to that concept that that is the important test, but the specific test that they adopted was the machine or transformation test. That goes back to, I think, the late 1800s, maybe the 1870s, in a case, *Cochrane*, where the Supreme Court stated that you have to have some kind of a transformation of matter.

¶68 So in *Bilski*, the Federal Circuit said you can either have a machine integrated into this method and the method tied integrally to that apparatus, or you can have a transformation of matter. And then they said, well, you can also have a transformation of data, as long as the data represents some physical object. So you don't actually have to transform a physical object, you can transform data representing a physical object.

¶69 It was an incremental step forward, I think, from the prior precedent from the Supreme Court, but not without cause. I think if you look here at the language from *Gottschalk v. Bensen*, the Supreme Court Justices themselves says that this is not the only test. Machine or transformation is not the only test.

¶70 "We do not hold that no process could ever qualify if it did not meet the requirements of our prior precedents." The prior precedents in the opinion, they went through a number of cases that they had decided that all seemed to relate to either methods that had either a machine embedded in the steps or a transformation of some physical object.

¶71 They explicitly acknowledged that this test might not suit for every scenario, so I think that there is certainly room for the Federal Circuit to pursue this and to develop the case law to allow this protection of business method patents.

¶72 It is not something that is outside the scope of the precedent and what the Supreme Court indicates would be patentable, and I believe that these inventions in business

methods, financial engineering, for one thing, certainly are just as worthy of protection and need incentivising just as much as the traditional engineering and sciences that we are familiar with. That concludes my remarks. Thanks.

¶73 MR. DONOGHUE: Thank you, Mr. Irvine. I want to make one amendment as we get started. I presume this will work well for Ms. Katzenellenbogen and Mr. Irvine, as we all litigate. I am a little uncomfortable with a room full of silent people looking at me. I am much more used to an interactive discussion.

¶74 So as I ask questions, if you have questions, please jump in. You don't have to wait until the end. That way we make sure that the debate is engaging for everybody in the room, not just for the three of us.

¶75 And what I would like to do is start with some of the broader theory-based issues that both of you discussed early in your presentations and then later on begin to focus on the specifics of the machine or transformation test and the most recent Federal Circuit decisions.

¶76 One of the things that you both discussed was the constitution, and I think we all agree that the constitution gives Congress the power to promote progress by securing exclusive rights to, quote, "discoveries."

¶77 And, Ms. Katzenellenbogen, you mentioned the English system where it had been debated for some time, over at least the steam engine improvements, whether method patents should be allowed. So the founding fathers certainly had the ability to be aware of that and probably were.

¶78 In light of that and the fact that they leave a very broad opening for Congress to act on discoveries, wouldn't it be reasonable that any statutory language ought to be considered broadly in light of the fact that the founding fathers specifically left a business or, well, method patents open for protection and exclusive rights?

¶79 MS. KATZENELLENBOGEN: So the issue with that is that at that time, at the time the patent laws were drafted, it was understood that process or method patents would be tied to a type of manufacturing. It didn't contemplate processes that were completely not tied to any machine, not tied to any manufacturer, that were just methods of people interacting, of organizing human activity. That wasn't contemplated by the drafters who drafted Section 101.

¶80 When they said "processes," they meant in the way that, up to that date, the way laws were understood at that time, the way the English system used the term "processes" when the side of the English system debate that wanted process patents to be allowed thought of process patents as involving manufacturing, processes linked to manufacturing or to creation of different compositions of matter, things like that.

¶81 Those were the type of processes that were contemplated in drafting Section 101. Abstract business methods were not what the drafters had contemplated.

¶82 MR. DONOGHUE: Mr. Irvine.

¶83 MR. IRVINE: Well, maybe there is a bit of a problem here of definition. You know, the problem is that business methods, that term, is really hard to put your finger on. Nobody that I have ever read or heard was able to provide me with a satisfactory definition of a business method.

¶84 Now, I think I agree with Lauren about whether abstract ideas or pure mental processes should be patentable. Those are situations that are clearly on one side of the line, but to just say that because a technology involves some kind of commerce or some

kind of a business activity should in and of itself make that nonpatentable subject matter, I think that goes too far.

¶85 So I guess we could debate. I could take the pro side of whether pure mental steps and human interrelationships and methods involving that could be patentable. I don't know that anyone has really tried to go quite that far, but I think if somebody came up with a new non-obvious way of performing some method that involved nothing but those things, I don't see why it shouldn't be patentable.

¶86 But more to the point here today and the practicalities of *Bilski*, I think that the definition that says business methods is a method that in some way touches commerce or involves business activity shouldn't be patentable, that goes too far.

¶87 MR. DONOGHUE: Next, both of you touched on the incentives provided to inventors under the patent system, and I think the real purpose of the patent system has always been that you give inventors the incentive of exclusivity for a period of time in exchange for inventors providing their inventions, their ideas to the public, which is supposed to advance the public good by creating a body of information by exposing inventions, new thoughts to the light of day as opposed to what would likely happen without patents, which is everyone would hoard their ideas and try to protect them as trade secrets.

¶88 One of the things that Mr. Irvine pointed out was, I believe, 80 percent of the economy is currently service-based, and if we don't allow broad patenting, isn't there a concern that we are going to take the place where much of our innovation is occurring a service-based economy and cause prudent businesses and inventors to hoard their information, thus reducing overall innovation throughout the country? Mr. Irvine.

¶89 MR. IRVINE: Yes, I think that because of the freeriding problem, because any company would be free or relatively free to adopt other people's technology without compensating them, I think you would definitely see a dropoff in activity by individuals and small businesses.

¶90 Now there is an argument that business methods are by their very nature public, and when you implement a business method, people are free to see it and learn from it, and hence it's already in the public consciousness, and so we don't need the patent system to encourage disclosure.

¶91 I think that I agree with that, except that that is not the sole component of the patent system. It is not just limited to the quid pro quo. I mean, that is kind of the rationale that people feel good about. That we are giving exclusivity in exchange for the disclosure and the teaching to the public. But that is only half the equation.

¶92 The other half is the incentive in the first place to come up with it, to benefit from your new ideas, and, yes, people say that oftentimes the first mover advantage and being first to market, being ahead of the competition is enough of a reward and hence you don't even need the monopolistic aspects to incentivise. I disagree with that.

¶93 I think there are plenty of scenarios where you do need to incentivise and provide that protection, otherwise that innovation won't occur. As I mentioned earlier, there are certain technologies in business, in finance where if you are not a major player, then you don't play unless you have some mechanism to protect your intellectual capital.

¶94 MS. KATZENELLENBOGEN: I would respond that we don't need to incentivise the invention of business methods, because there is already incentive. Without any additional monopoly, people are going to try to come up with better ways of doing

business, because, for one thing, the research and development costs of coming up with new methods of doing business is not that high, not compared with things like pharmaceuticals or medical devices where there is an enormous research and development cost.

¶95 Business methods are something that have a very low cost to develop, so we don't need to compensate people for the huge research and development expenditures because there just isn't a huge expenditure when it comes to business methods.

¶96 Secondly, in terms of making these inventions public, I think they are inherently public. People can very easily see somebody's business method and copy it, so there isn't that much that the public gains from providing an incentive for people to publicize their business methods. They are going to be made public either way.

¶97 And then also people always have an incentive to try to develop better ways of doing business. It's just the entrepreneurial spirit. People benefit just by doing business better. The businesses, even if they are small businesses, if you have a better way of doing it, you are going to get better profits and, yes, other people will copy you, but it didn't take that much to develop that in terms of expenses, so why do we need to incentivise it.

¶98 MR. DONOGHUE: Question from the audience?

¶99 QUESTION: Yes. This question is for Mr. Irvine a little bit. I am just trying to think of specific examples of where business methods are at such high research development costs that not protecting them would disincentivise their creation.

¶100 You cited generally the example of players, big financial institutions, versus small ones that won't invest time and energy in improving the task of performing, but can you think of any specific examples or discuss any specific examples of that?

¶101 MR. IRVINE: Sure. I guess, for one thing, I don't know that I had specifically in mind the idea that it applied where there were high development costs. I haven't thought about that, and I don't have any specific examples of that scenario, but I think more importantly, tapping into the creative process of individuals and small companies is what we need to incentivise.

¶102 So even if there aren't high development R&D costs that are required to develop technology, you still want to open the playing field to anyone who has a creative idea who thinks of a better way, a more efficient way, a more effective way of doing something.

¶103 So that is where I was going with that, where if you are not a big player, you don't get to play, but it doesn't have to do with the cost of R&D.

¶104 Now, I will say that because of this backlash and this attempt to define patentable subject matter in a way that might tend to exclude business methods, we have created other problems. The Federal Circuits and Supreme Court have created other problems, specifically maybe in areas where there are huge costs in development.

¶105 This whole open question -- and I don't want to steal the thunder from this afternoon's panel, but the question of diagnostic claims and recognizing that levels of homocysteine correlate to certain deficiencies, whether that is a law of nature or some other broad category that shouldn't be patentable.

¶106 Because of this kind of a decision, it calls into question the patentability of those things in areas where development costs are huge. So as maybe a kind of collateral

damage, this business method debate has created problems in the scenarios that you are talking about.

¶107 MR. DONOGHUE: A number of audience questions, but first, do you have a response?

¶108 MS. KATZENELLENBOGEN: I have to agree that this Bilski decision has created problems in areas like you mentioned, like the diagnostics where there are huge R&D expenses, but those aren't business methods. Those are something entirely different, and I have no problem with allowing those to -- I mean, that actually further shows the problem with allowing business methods to be patentable, because how do you distinguish between things that aren't business methods that should be patentable, because they do require huge research and development costs more than business methods which really don't.

¶109 MR. DONOGHUE: And your first question is right here.

¶110 QUESTION: I have heard a lot of the justification for not allowing business method patents because they are having trouble hiring experts and finding prior art. Could each of you speak a little bit about that as a justification for not allowing these things.

¶111 MR. IRVINE: This isn't the first time that new technologies have been formally recognized as being patentable subject matter. The whole biotechnology revolution, when that first started, the patent office was very ill-equipped to deal with biochemistry and genetics issues, DNA sequences. There was no patent prior art. It was all in the literature in the scientific journals.

¶112 I think that this is no different in that respect, but -- well, maybe it is a little bit different in that it is not that difficult for examiners to find that prior art, even though it doesn't exist in the patent literature, and, in fact, some of the patents that have issued that got a lot of attention shouldn't have been issued, and because the patent examiners are able to use the patentability tandards expressed in KSR now, they are able to use, and state that they are using, common sense as the basis of the rejection. They are applying a well-known techniques.

¶113 And so I think examiners are -- you know, you don't need a Ph.D. in biochemistry or genetics to figure out whether certain business methods have been done before or not. So I think having access to prior art is less of a hurdle than it was back with the biotech revolutions.

¶114 MS. KATZENELLENBOGEN: And I would say that raises a really good point. Because, historically, business methods were not patentable, there is not a large body of prior art in the form of patents, and that does make it much more difficult for examiners to search for prior art, which results in lower quality business method patents being allowed.

¶115 And, yes, examiners may be aware of just what is generally out there in business, but they may not, and it requires a lot of resources from the patent office, which is overworked already, to try and do a far-reaching search of things that aren't just patents. So that is a serious issue.

¶116 MR. IRVINE: I would just add to that, that it just comes to my mind that some years ago a patent issued that related to a method of swinging on a swing in a sideways fashion rather than the well-known back and forth manner that was clearly in the prior art. If the examiner allowed this, maybe because he was unable to find a reference that

demonstrated sideways swinging, or Tarzan yelling for that matter, which was in a depending claim. I'm not kidding.

¶117 So the idea that this inability or the lack of a clear patent literature of prior art is a reason to not allow patents in this area, I don't think makes any sense. I mean, sometimes mistakes happen. Everyone's human, including examiners at the patent office. I don't know if I -- well, maybe I have said enough on that, but mistakes happen, and I don't think that the lack of prior art was the reason for that kind of a mistake.

¶118 QUESTION: Yes. This is for Mr. Irvine on the idea of incentivising small business. All of my clients are small businesses. Do you want to incentivise them? Take away the opportunity for large well-cliented business to get patents and then leave my clients or businesses the size of my clients in the position of taking on an extremely expensive fight to prove that that patent never should have been issued in the first place.

¶119 I think it is kind of -- there is protection. Even though you can't get a patent, you wouldn't be able to get a patent on a business method, you can copyright all of the software that goes with it. You can protect it by trade secret.

¶120 And I don't know how many times I have picked up the paper to find out that some small company has been acquired by a larger company for what looks to me like a huge amount of money simply because that small company developed a way of doing business that the larger company didn't want to spend the time and resources on the replication, even though it wasn't patented, so they bought the technology and the expertise and the know-how. That seems to be even more consistent with the way a business conducts itself than simply saying, "Well, yeah, go ahead and get a patent so no one else can do it."

¶121 Before 1998, what did businesses do? I agree with your opponent that if you are in business, you have a built-in incentive to do things better than the other guy because you will get more customers like that.

¶122 MR. IRVINE: I would submit that everything you just said applies to any technology, be it a business method, or chip development. You know, the argument that patents inhibit innovation because the public isn't free to pick up what others have done before -- immediately pick up what others have done before -- and further refine and innovate and improve, I mean, that's an argument that applies to every technology.

¶123 QUESTION: But with all other technologies, at least the ones that -- and I am going to exclude patent software, but with a machine, I can advise a client this is what is protectable about this machine.

¶124 This disclosure that you are talking about, the making the patent public, is not only a way of adding to the historic knowledge that we have, it's a way of telling other inventors, "Here is what this guy did." If you can engineer around that, then you will have something that is even more useful.

¶125 Now, that is an incentive for me to -- I mean, that's, to me, for all these years my idea of how the patent system works, but to tell somebody, "Well, this is business method, somebody has a patent on it," I'm not really sure I can write an opinion telling you whether it's safe for you to practice this method or not, because I don't know what prior art is out there, and you don't have money for me to go out and find what prior art is out there with a patent on it to be not considered.

¶126 Now, possibly, if there were a system where any business method patent applications were published and there was a period of time for people to object to it and bring up art that the office would not necessarily have, that might make the idea of

granting a patent on a business method more palatable, but if you are talking about a society where 80 percent of what we do now is service oriented, that is an awfully large chunk of the economy to be told, well, now it is very uncertain as to what you can and you can't do as far as pursuing business methods.

¶127 MR. IRVINE: Well, we certainly are in a period of uncertainty, and I think to get a little more clarity, we are going to have to wait for the Federal Circuit to further refine some of these tests that might draw more lines between patentable and unpatentable subject matter.

¶128 But the costs that the patent system imposes on business, the transaction costs associated with trying to deal with a patent lawsuit you think is ill-founded, it doesn't matter whether it's a business method patent or not. It happens all the time, unfortunately, and that is a negative aspect of our patent system.

¶129 Again, I would submit that the inventions in this space are no less worthy of protection and need incentivising just as much as others, and there have been some examples of business method patents that kind of inspire a sense of unfairness because they go too far, but those are individual failures not due to whether, I believe, whether -- and I say "I believe" in the context of this artificial debate.

¶130 QUESTION: This is nothing personal.

¶131 MR. IRVINE: That -- I lost my train of thought. Could you read that read back? No, I'm kidding. I think they need to be incentivised just like any other technology.

¶132 MR. DONOGHUE: Ms. Katzenellenbogen.

¶133 MS. KATZENELLENBOGEN: Well, I would just say that they are different from other technology, and what I mentioned before, which is the research and development expenses, other technology needs to be incentivised because of the huge initial expense, and you don't have that with business methods. So I don't think that in the case of business methods the cost to society is outweighed by the benefit as you have with other technologies.

¶134 QUESTION: I would like to make just one quick point. We talk about the burdens of patents today. If you look back at the extraordinary patent disputes that went on a century ago involving people like Edison and Armstrong and all of that, you realize that there was just as much complaint about patents then as there is today.

¶135 But what I really would like to ask is, isn't there a law that was passed about ten years ago that specifically addressed the issue of business method patents and provided for an exemption from prior use of that business method? I don't believe it's codified as part of the patent law, but it exists, and that, as a matter of public policy, suggests that business method patents are patentable.

¶136 MR. DONOGHUE: Ms. Katzenellenbogen, would you like to start that and answer it?

¶137 MS. KATZENELLENBOGEN: Sure. So I am not exactly -- I am a little confused. What was the exemption you were saying?

¶138 QUESTION: There is a public law that exempts prior use of business method patents.

¶139 MS. KATZENELLENBOGEN: From?

¶140 QUESTION: From infringement damages, and therefore it seems to be -- on its face, it says that as a matter of public policy, business methods are patentable.

¶141 MS. KATZENELLENBOGEN: Oh. So just prior use? Oh, so before the issuance?

- ¶142 QUESTION: Before the patent issues, I guess. I don't know the details.
- ¶143 MS. KATZENELLENBOGEN: Before they are issued.
- ¶144 MR. IRVINE: I am not familiar with --
- ¶145 QUESTION: And that one seems to --
- ¶146 MR. DONOGHUE: I think we have an audience clarification.
- ¶147 MR. IRVINE: Yes.
- ¶148 QUESTION: Section 273, and it says that it's used -- it's prior use.
- ¶149 MS. KATZENELLENBOGEN: Right.
- ¶150 QUESTION: If you can show that you used it at the earliest filing date, then it is not liable -- well, his point is correct. You are also not liable to infringement, but the other part of it is Congress has said, number one, that this patent through that statute has adopted its useful part of the result test. Now, the problem with the Federal Circuit, it said that it sub silentio overruled that on no basis whatsoever by making this test, and that is addressed in the weakest groups, the certiori position was being used.
- ¶151 MS. KATZENELLENBOGEN: Right. Yes, I think there are a whole lot of ways, that there are other laws, and there is also the obviousness and the non-obviousness and novelty requirements. So there are other things that hem in what you can patent in terms of business methods, but Congress still intended there to be this separate subject matter restriction in Section 101.
- ¶152 And I believe you still do need that, because you have to keep in mind -- and it just comes back to the purpose of the whole patent system and the exchange of granting a monopoly in exchange for promoting invention and technology, and you have to go back to that, and you need a limitation on what is patentable so that the patent system is promoting what it was designed to promote and not just imposing a cost on society.
- ¶153 MR. DONOGHUE: Mr. Irvine.
- ¶154 QUESTION: Actually, I would ask just to comment on that. You know, it's funny, because this is the kind of thing that should be a trade secret because it gives you a business advantage. And so how would anybody ever figure it out? It's not like a device that you sell and somebody can reverse engineer it. It's like a drug to sell. Somebody could do a chemical analysis to figure out what it is.
- ¶155 So you could make Congress your argument that giving business method patents that incentivises not the monopoly, which is over in 20 years, but the disclosure of ways of doing business that would otherwise never come to light.
- ¶156 Now, I don't know whether that is a good enough reason, but it seems to me that the reason that Congress has the power to grant patents, it's not to help inventors necessarily -- that is an ancillary good -- but to promote progress, which means to incentivise people to disclose their inventions, then isn't this the perfect kind of thing you would have to have disclosed, because otherwise it never would be?
- ¶157 MS. KATZENELLENBOGEN: Well, I think that is a good point. I think the answer to that is that most business methods are inherently public, and you can go One-Click shopping, things like that. These things are going to be very easily disclosed to the public and very easy to reverse engineer, hard to keep as a trade secret, I think. I mean, there are certain --
- ¶158 QUESTION: I don't know. But if I knew how to do derivatives in a way that I could make money in the stock market, I wouldn't tell you.

¶159 MS. KATZENELLENBOGEN: Well, that's true, and that sort of thing would probably stay as a trade secret.

¶160 MR. IRVINE: Yes, I guess I would agree that that kind of thing would stay as a trade secret, but I think there are plenty of other kind of behind-the-scenes methods that a business might use relating to data mining and determining relationships between certain variables, and that would not come to light but yet could still enter the public domain as employees move from company to company, and so there would be -- it would be a much more gradual process, however. And so I think it is important to promote the publication of those ideas.

¶161 MR. DONOGHUE: The gentleman in the back row has been waiting a long time for a question.

¶162 QUESTION: Yeah, I just wanted to make a point. I think we are making the same mistake that, say, a Judge who has a degree in English makes about solving an engineering problem: "Oh, that's obvious. That's obvious."

¶163 And what we are saying here is that as engineers and as patent people, that these business methods are -- they don't involve much research and development as we consider research and development, that, you know, this is a spark of inventorship by a marketing person, which should also be patentable.

¶164 But as a specific example, I would ask you to look at a place like Huffington Post, and I think their marketing people are spending a ton of money and a bunch of time trying to monetize Huffington Post, and I think it may be the marketing department rather than the engineering department, but that's research and development and that's a substantial outlay that some day somebody is going to come up with an answer and the question is, well, will that be patentable?

¶165 MR. DONOGHUE: Before I force the panelists to answer that question, I want to say much like with the debate on business method patents, no one at this table is taking question with any Judge's ability, with a degree in English or otherwise, to decide cases.

¶166 With that, Mr. Irvine, would you like to answer first?

¶167 MR. IRVINE: Well, maybe you could clarify the question, whether if --

¶168 QUESTION: Somebody asked for a specific example of where there was a substantial amount of money going into investing in business methods, and we kind of -- it seemed like it was -- said, well, there isn't a substantial amount of money to be invested in business method patents, and I think that there very well may be and there is specifically in a question like trying to monetize the Internet.

¶169 MR. IRVINE: Well, I guess I am not that familiar with all of the innovations surrounding the Huffington Post and how they are monetizing things.

¶170 If you can define for me the nature of these efforts to monetize in a way that I can distinguish it from the prior art, then yes, I would think that that is the kind of thing that could be patentable subject matter and should be patentable subject matter. Right now, in my mind, it's kind of nebulous, and I'm not sure what exactly you have in mind.

¶171 QUESTION: Because it hasn't been invented yet. The Huffington Post is one of the most successful Web sites out there, and yet they're barely above the water line monetarily, and all I'm saying is that I bet you if you look on their balance sheet, they are spending an awful lot of money trying to figure out how to make money on it.

¶172 QUESTION NO. 2: Yeah, I think his point is just that, you know, you can't underestimate the amount of money that is spent in R&D, you know, that is being spent

to develop business methods originally. Even if the net amount of money doesn't sound like a lot to a pharmaceutical company, if I am a small business owner and I am going to spend \$5 million to start a business running because that's all the money I've got, so that's very important that that idea is protected almost regardless of the amount of money.

¶173 MR. IRVINE: Well, so, you know, I guess that would be a good example to put up in favor of business method patents as soon as the Huffington Post figures it out, and they have a model that they think solves some existing problems, obviously, problems that are long-felt and unmet. So that would be an argument based on so-called "secondary considerations" in favor of non-obviousness.

¶174 MS. KATZENELLENBOGEN: I would just say that that demonstrates, though, why you don't need to incentivise business methods at all. The Huffington Post, for example, is going to spend that money whether or not they can patent whatever they come up with because it improves their business and improves their way of making money.

¶175 QUESTION: First of all, I at the present moment am negotiating a license agreement or a service agreement regarding a training method, a method of doing business, which has been rejected by the patent office, and the people who are taking the other side of the license are willing to pay my client \$50,000 in advance of this ruling.

¶176 So therefore this training method or follow-up training method must have value, and I see personally no reason why business methods that are legitimate, if not mere abstract ideas and so forth, should be patentable.

¶177 Now, in one of your slides, you have the quote from Judge Rich in the State Street case, am I correct, where he said it's about time that business methods were granted as patentable. Judge Rich was the head of the committee that wrote the patent law that we all deal with right now. He wrote it. So he is one of the framers, the founding fathers of the patent law that we used today.

¶178 I don't know why other people haven't given more credence to what he says about this. I think the CAFC and the Supreme Court have a running battle over who knows more about patent law, and I would like to see the Supreme Court grant cert to straighten this whole thing out, but I think just because you can take a business method and put it on a computer, oh, that's patentable, but you can't use a computer for a business method, that's not patentable, I don't think there is any support for that kind of an argument in any of the patent law today.

¶179 MR. IRVINE: No, I agree, and I think we would all benefit from some input from the Supreme Court. Perhaps Judge Michel is concerned that they might take us down the garden path like what happened in *Parker v. Flook* where the Supreme Court kind of conflated the issues of 101 and patentable subject matter and the 102, 103 inquiry under whether it's novel and non-obvious.

¶180 And, you know, in *Parker v. Flook* -- I am pretty sure it was *Parker v. Flook* -- the Supreme Court said, well, any mathematical component of a claim, we are going to regard that as being in the prior art. So then the Federal Circuit for a decade or more kind of -- or maybe that was even pre-Federal Circuit. But the point is that the Federal Circuit ultimately had to dance around all of these conflicting concepts and came up with, if you remember, the Freeman-Walter-Abele test and the abstraction, and I think that

rather than allowing the Federal Circuit to try to further define additional tests, I would like to see the Supreme Court weigh in on it.

¶181 QUESTION: Well, if Congress will ever get around to it, they will.

¶182 MR. IRVINE: Well, the Supreme Court in a number of opinions stated that they think that these are policy issues for Congress to address. My concern is that when members or former members of Congress believe the Internet is nothing more than a series of tubes, I don't know that I have high hopes for what comes out of any committee there.

¶183 MS. KATZENELLENBOGEN: And I would say I too agree that there is further clarification that needed. I don't know whether it needs to be the Federal Circuit or the Supreme Court, although the Federal Circuit seems to be leaving it to the Supreme Court. So I think if the Federal Circuit isn't going to do it, then hopefully the Supreme Court will, but there does need to be further clarification.

¶184 QUESTION: So Judge Rader's in his dissent basically objected to kind of the whole methodology. He basically said this is an abstract idea, so there is no reason for us to get into what the test is going to be. This is clearly not a case -- this is clearly an abstract idea, so it's just a bad vehicle for addressing the issue of what is patentable subject matter.

¶185 I wonder if you guys came across any case in particular on whether it was sort of clearly just an abstract idea, the idea of just this method of managing contractual relations.

¶186 MR. DONOGHUE: All right. Let me inject one other piece into that before we get to the case. Both was it a bad case and is the test as it stands so vague as to inject too much uncertainty into the system, as some of the amicus briefs before the Supreme Court are arguing now? Would you like to start?

¶187 MS. KATZENELLENBOGEN: Sure, I could start with that. I think that you could say it was a bad case because the Bilski invention would have been rejected for obviousness, if nothing else, so really the rejecting it because of subject matter was sort of an additional reason to reject it.

¶188 But at the same time, I think that the Federal Circuit took it because they realized that there was a need to address this issue, that the test in place in from State Street was not clear enough and left everything way too ambiguous, and so this was clearly an issue to need to be addressed.

¶189 I think the test that they adopted still is very vague. It's better, but there are still some issues. In terms of tied to a machine, there are a lot of -- you sort of have to guess at how tied to the machine it has to be, how much does the machine have to play a role in the invention, and same with the transformation. The transformation is even more vague. It's almost as vague as the prior State Street standard. So I think it still is still very vague, and it could use a lot of clarification.

¶190 MR. IRVINE: Well, I will agree on that point. I think that the claims of the case were not very well formed to present the issues that we are really trying get answers to, and in particular, as I recall the claim, the steps of the method involved initiating transactions, relating to taking on hedging positions as energy is consumed, and I think that is a very vague term. Both parties agreed that the claims did not involve an apparatus, and so -- and I don't think the specification is in the public domain.

¶191 I don't think we have access to what the spec of Bilski says "initiating transactions" means. As I mentioned before, you can initiate a transaction by raising your hand to buy something and signaling how many you want to buy.

¶192 So from that perspective, if the claim had been a little more specific about the steps that were being implemented and included additional language that really defined it better and maybe even -- I mean, it would have been helpful to have the apparatus side of this, the machine side of this test, at issue.

¶193 I mean, to have a case where they announce a rule, a test for patentability based on a machine or transformation and are not going to tell you what satisfies the machine part is unfair. They explicitly said that, "we reserve for another day that question." So that is entirely unhelpful. They are taunting us almost, right?

¶194 But I am also troubled by the Federal Circuit's kind of offhand dismissal of options as mere legal relationships. Options are securities that trade on exchanges, they are registered, so it would have been nice to have a little clarification as to really what they thought, but it wasn't really in the claim. So I do agree that this was not very well suited to present these issues.

¶195 MR. DONOGHUE: Another question?

¶196 QUESTION: Since you have gotten into talking about the test, you have both mentioned the manipulation of data that relates to a physical thing. That also seems kind of nebulous to me, because, you know, there is physical money, but money is a representation of wealth, or, you know, data about longevity as opposed to a person's height is another example I've heard. Can you talk about what threshold that new data will have to be.

¶197 MR. IRVINE: Right. So, like I said, this is the one area maybe where the Federal Circuit did advance the ball a little bit, and they said that in their -- I think it was the Arrhythmia case that said -- or, no, I forget, maybe the Abele case where the technology involved x-ray data and they were acquiring this data and manipulating it and then presenting an image of the bones, and the Federal Circuit in Bilski said that that still is patentable, that transformation of data representing a physical object is patentable.

¶198 There is also a sentence in there in some clause, I think, where the Court suggested that because the Bilski claims did not involve this, that, the other thing, or a signal, I think they referred to it as a signal, then that was further supported that it was not patentable, leaving the door open, I suppose, to say that by the inclusion of the term "signals", that transformations of signals would be patentable subject matter.

¶199 That certainly would be in line with Supreme Court precedent, you know, the Alexander Graham Bell patent. The Supreme Court weighed in earlier on the Morse claims, the telegraph claims to Morse about how he wanted to use repeaters to allow the transmission of these signals over longer distances, and one of his claims was essentially "I want protection for the use of the galvanic current to transmit information over any distance, and however so implemented", or something crazy like that, and the Supreme Court said that doesn't have any meaningful limitations. It doesn't tell us -- it's too broad of a footprint.

¶200 And then in the Alexander Graham Bell case, the Supreme Court said here we have a specific example, a specific application of a galvanic current being modulated in a way to carry voice. That's patentable subject matter.

¶201 I mean, to me, that is a transformation of data. Back in the day, it was analog data. It was information carried by the fluctuation of an analog medium, and now, you know, we have sampling and we have digital communications. I think that it is not a stretch to say that telecommunications inventions are similarly patentable.

¶202 The problem is, with this test, you could make an argument that says any telecommunications method that involves new and better ways to sense data, manipulate it, and try to recover it so that we can figure out what was sent, which is what telecommunications is all about, that is not patentable subject matter because the data doesn't represent a physical object. It's data. It could be any number of things and, frankly, the telecommunications inventors don't care what the data represents. It's bits.

¶203 MS. KATZENELLENBOGEN: I would just add that the Federal Circuit did say that one thing that is not enough is just having a data gathering step. If you are just gathering data, they say that any method involves gathering data, so that is not clearly a method. It has to be something more than that.

¶204 I think a lot of what it is going to come down to is what is preempted by the claim. If it preempts the entire idea of the method, I think that is clearly going to be too broad. If it is limited to a specific use, it is getting better and it is more likely to be patentable, but it is still a very amorphous test.

¶205 MR. DONOGHUE: One of the things that I found after the Bilski decision came down, and I saw it before, that my clients who were concerned about software patents on either side wanted to know: is Bilski going to decide the issue of software patents.

¶206 And after the decision came down, I got calls from my clients who like software patents saying, "Thank goodness. They saved software patents. All we have to do is write a computer or processor into the claims." And my clients who don't like software patents called me and said, "Thank goodness. There is no way. It's going to have to be a specific special system or computer. Software patents are dead."

¶207 And so can you speak to what this test, what this case has done, and what the right answer is in terms of this debate. Ms. Katzenellenbogen, would you like to start?

¶208 MS. KATZENELLENBOGEN: Sure. I do think that it is still very possible to get software patents, and clearly, you know, tying it to the machine helps. I think it helps a lot, particularly if you start with a narrower claim.

¶209 And one of the things that I know a lot of -- I do pretty much entirely litigation, but a lot of my patent prosecution partners have said if you can try and get your claim out of the business method group, you are a whole lot better off just to start, and the more structure, the more hardware you can add to the claim, the less likely it is to fall into the business methods group.

¶210 So there certainly is plenty of room to still a patent software, and then, of course, there is also, as somebody mentioned, the copyright option. But it seems like it does narrow it. You clearly have to tie it to hardware. You have to tie it to something, but it's still certainly available.

¶211 MR. IRVINE: Yes. I think that this test is, as I said, really unhelpful because they didn't address how much of the computer needs to be in the claim, to what extent a general purpose computer could take on the characteristics of a special purpose machine that is part of the method.

¶212 You know, the Courts, I believe, at one point in the patent office tried to limit patentable subject matter to things that have a technical effect, much like what is actually

used in Europe to determine patentability. In other words, the invention as a whole must have some characteristics, in fact, the point of novelty, as they look at it, has to involve some characteristic of the computer at a level that it is kind of data agnostic. It doesn't rely on the method of business involved in the claim. It has to be a technical thing in the overall method that applies to any business method.

¶213 So we have tried that here. The patent office actually, I think, had a formal policy requiring a technical effect, and they ultimately abandoned that as not being consistent with the case law.

¶214 And so I think Lauren is right on this point. The methods, method claims drawn to this area need to incorporate as much hardware as possible, and I think that that makes sense in that it comports with that fundamental test of how big of a footprint are you drawing. As long as the claim has meaningful limitations, I think that it should pass the hurdle, but until we get further clarification, we just don't know.

¶215 MR. DONOGHUE: We have mostly focused on business method patents, in part, I think, because they are sort of the sexiest variety of these patents because you have the outliers, like the swing patent.

¶216 In terms of software patents, Mr. Irvine, isn't it fair to say that software has so many other potential protections between copyright, trade secrets and the Digital Millennium Copyright Act, if you attempt to essentially steal the protected code, so aren't software patents already protected and so don't they require less patent protection?

¶217 MR. IRVINE: Well, I think you need to really clarify what is meant by a software patent and what the scope of a software patent might be.

¶218 For software generally, I think the scope of copyright protection is pretty darn narrow. The various doctrines in copyright law as applied to software, such as the scenes à faire doctrine and other things like that really make the scope of protection very narrow and I think covers only instances where there is direct copy. And then, of course, it's a very powerful tool.

¶219 What it doesn't provide protection for are some of the broader concepts and methods as implemented in the software that can still be very inventive but have value not just in their specific particular expression but in other alternatively beneficial expressions. And so really what patent protection is geared towards is providing a little broader scope of protection.

¶220 MR. DONOGHUE: Ms. Katzenellenbogen.

¶221 MS. KATZENELLENBOGEN: Well, yes, I mean, it's kind of, since I am supposed to be taking the side of business methods should not be patentable, it's kind of hard for me to argue against what you said, but I think there are lots of other types of protection, for instance, copyright, and copyright certainly does provide a means to protect software.

¶222 To the extent that there are aspects of hardware and other things, those would take it out of the business method category, and so then you really don't need the business method patent protection to protect a lot of the software, aside from what you can get from copyright. So --

¶223 MR. DONOGHUE: Thank you. With that, our time has run out. And I would like to thank both of the presenters and the audience for a great interactive debate.

¶224 MR. HAMMER: Thank you. That was a great debate, and the audience had great questions. At this time, we are going to grab lunch. We have lunch set up in Room 112,

so please follow the crowd, grab something, and come back in for what I am sure is going to be a great presentation by Chief Judge Holderman of the United States District Court for the Northern District of Illinois. Thanks.