U.S. appeals judges quiz lawyers on rules for patenting software

Diane Bartz, Reuters

(Reuters) - Lawyers squared off on Friday over U.S. rules for granting patents for software [1], or if software should be patented at all, in arguments in a case closely watched by Google [2] Inc, Facebook [3] Inc and other technology companies.

The full U.S. Court of Appeals for the Federal Circuit heard arguments in the case, which involves whether patents for a computerized system for exchanging financial obligations are valid. The case has drawn wide interest because it could help determine parameters for software [1] patent protection.

Disagreement was apparent among the 10 judges on the panel, and experts said they expected a divided decision, which could land the case before the U.S. Supreme Court.

The case began in 2007 when Alice Corp of Melbourne, Australia [4], sued CLS Bank International for patent infringement. Alice is owned in part by National Australia [5] Bank Ltd.

CLS, which runs a foreign-exchange settlement system, argued that the Alice patents were invalid because they were nothing more than an abstract idea.

Under patent law, an abstract idea - such as the idea of a self-driving car - cannot be patented but the engineering [6] that creates a self-driving car can be patented.

Mark Perry, the attorney who argued for CLS Bank, said that the U.S. Patent and Trademark Office initially rejected one patent as too abstract but did approve it after Alice Corp re-wrote it to add the use of a computer.

But in the case of at least one of Alice's claims, an impatient Judge Kim Moore strongly disagreed. "Wow! This is so far from ... an abstract idea!" she said, referring to a portion of one patent.

Adam Perlman, the attorney who argued for Alice Corp, said that the patent should be held valid because a machine performs the function.

But Judge Timothy Dyk pressed on the question of whether the patent was abstract and whether it was obvious. An idea that is an obvious, small improvement is not considered patentable.

Referring to a system of tallying trades done over the course of a day, he suggested that it may be impossible to do such work without infringing a patent.

Patent experts at the hearing expected a divided ruling.

"I think everyone walked out of the room with the thought that there's a real difference of opinion from those judges," said Erika Arner, a patent attorney with Finnegan, Henderson, Farabow, Garrett & Dunner LLP, who is not involved in the case.

In July, a panel of the appeals court agreed with Alice in a 2-1 decision.

Google [2], Dell Inc [7] and Facebook [3] filed a friend-of-the-court brief criticizing the decision, arguing that patents like Alice's do not innovate enough to deserve patent protection. LinkedIn Corp, Twitter and others agreed.

International Business [8] Machines Corp, on the other hand, filed a brief saying most software inventions qualify for patent protection. IBM, which has topped the list of U.S. patent recipients for 20 years, cautioned the court against creating a strict rule that would further limit protection.

The case comes after two Supreme Court decisions involving similar issues of patent eligibility.

In Bilski v. Kappos, the high court found in 2010 that a business-method patent for guarding against investment risk was an abstract idea and could not be patented. Last March, in Mayo v. Prometheus, the court ruled that a company could not patent a diagnostic process involving blood tests because observations about natural phenomena cannot be protected.

The case is CLS Bank International et al v. Alice Corporation Pty Ltd, U.S. Court of Appeals for the Federal Circuit, No. 11-1301.

(Reporting By Diane Bartz and Erin Geiger Smith)

Links:
[1] http://www.reuters.com/sectors/industries/overview?industryCode=174&lc=int_mb_1001
[2] http://www.reuters.com/finance/stocks/overview?symbol=GOOG.O&lc=int_mb_1001
[3] http://www.reuters.com/subjects/facebook?lc=int_mb_1001
[4] http://www.reuters.com/places/australia
[5] http://www.reuters.com/places/australia?lc=int_mb_1001
[6] http://www.reuters.com/sectors/industries/overview?industryCode=46&lc=int_mb_1001
[7] http://www.reuters.com/finance/stocks/overview?symbol=DELL.O&lc=int_m

b_1001
[8] http://www.reuters.com/finance?lc=int_mb_1001