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Door Left Open to Business Patents

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'...The patent law faces a great challenge in striking the balance between protecting inventors and not granting monopolies over procedures that others would discover by independent, creative application of general principles.' -Justice Anthony Kennedy, writing for the majority

(Photo: Associated Press)

The U.S. Supreme Court on Monday denied a patent to the inventors of a mathematical model to help commodity traders hedge weather risks, but left the door open for inventors of other new ways of doing business to get protection for their ideas.

The divided ruling left companies, inventors and lawyers without clear guidelines on what types of business methods could qualify for protection under

patent laws that were largely designed for the age of machines and physical manufacturing, not software and Internet commerce.

In another key action on Monday, the high court rejected appeals by both cigarette makers and the government of a 2006 ruling that found the industry violated federal racketeering laws by engaging in a

decades-long scheme to deceive the public about smoking's dangers.

The action means the cigarette makers will not have to forfeit \$280 billion in profits —as the government has sought —but they still face other penalties, such as a requirement that they make corrective public statements about the health effects and addictiveness of smoking.

In the patent decision, the court agreed unanimously that the hedging method at the center of the case decided was too abstract to patent. But on a 5-4 vote, the court found that business methods are eligible for patents under some circumstances. The high court disagreed with the lower-court's reasoning that the patent was invalid because the invention at issue wasn't associated with a machine and didn't physically transform a product.

The court's rejection of the "machine or transformation test" was good news for the holders of tens of thousands of patents in the software, biotechnology and Internet fields.

"It is a major relief," said Alexander Poltorak, chairman and chief executive of a patent-licensing firm called General Patent Corp. and the head of a group representing inventors called American Innovators for Patent Reform.

Advocates for trimming patent rights expressed disappointment.

"This narrow ruling does little to curb the explosion of patents and patent lawsuits that are crushing real innovators," said Ed Black, chief executive of the Computer & Communications Industry Association.

Business-method patents, such as Amazon.com Inc.'s "one-click" online shopping, are a controversial topic in business circles: Some companies support broad patent rights while others say that some business methods aren't real inventions and don't deserve patent protection.

Patents on methods of doing business have grown rapidly over the past decade. Inventors have sought to patent everything from tax-planning to legal strategies to methods for writing novels and making sandwiches.

Bank of America Corp., Google Inc. and a group of Internet retailers are among those who argued in friend-of-the court briefs that the explosion of questionable business-method patents has harmed innovation and led to costly litigation.

The pharmaceutical and biotechnology industries, along with high-tech companies such as International Business Machines Corp. and Yahoo Inc., had argued that a lower court's legal test limiting business-method patents didn't adequately protect technological innovations.

The justices unanimously agreed with the appeals court that the patent application at issue in the case should have been rejected, but the high court used a different analysis—ruling that it represented an impermissible attempt to patent an abstract idea.

The "machine or transformation" test is a useful tool in deciding whether patents should be granted, but isn't the sole deciding factor, the court ruled.

The high court found itself divided 5-4 on the broader question in the case: whether business methods could be patented at all.

The court's conservative majority said business methods weren't categorically excluded from patent protection.

Justice Anthony Kennedy, writing for the majority, declined to adopt "categorical rules that might have wide-ranging and unforeseen impacts."

"With ever more people trying to innovate and thus seeking patent protections for their inventions, the patent law faces a great challenge in striking the balance between protecting inventors and not granting monopolies over procedures that others would discover by independent, creative application of general principles," Justice Kennedy wrote. "Nothing in this opinion should be read to take a position on where that balance ought to be struck."

The court's liberal wing, led by Justice John Paul Stevens, would have held that methods of doing business aren't patentable.

"The scope of patentable subject matter...is broad. But it is not endless," Justice Stevens wrote in a 47-page concurrence.

Justice Stevens is retiring at the end of this court term.

Edward Reines, a patent lawyer with Weil, Gotshal & Manges, said the court took a pass on resolving some difficult issues.

"This appeared to be based on a lack of confidence that it could determine rules in this tough terrain with such high-stakes and rapidly evolving technology," Mr. Reines said.

The case is *Bilski v. Kappos*, 08-964.

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