

BILSKI V. KAPPOS: OF MISINTERPRETATIONS AND MISSED OPPORTUNITIES

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(ABSTRACT)

A business method patent is a patent granted for a process which involves a method of conducting or doing business.² While some argue that business method patents provide unnecessary and sometimes too broad a protection,³ others argue that business methods are essential for the development of commerce.⁴ The patentability of business methods was suspect and when the question of patentability of the business method developed by Bilski and Warsaw reached the Supreme Court, many believed that the time had come for the Court to authoritatively define the boundaries of patentable subject matter.⁵ However, the Supreme Court in *Bilski v. Kappos*⁶ did nothing of such sort. Instead the majority took a

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² Larry J. Guffey, *Business Method Patents: What they are-Why Clients and Service Provides Should Care*, 33-AUG Md. B.J.26.

³ Dratler, Jay, *Does Lord Darcy Yet Live? The Case Against Software And Business- Method Patents*, 43 Santa Clara Law Review 823-899.

⁴ Merton, Robert C. 1992, *Financial Innovation and Economic Performance*, 4 Journal of Applied Corporate Finance 12.

⁵ Michael L. Kiklis, *Bilski v. Kappos: Back to 1981*, Computer & Internet Law., Oct. 2010, at 1

⁶ *Bilski v. Kappos*, 130 S. Ct. 3218 (2010).

more result oriented approach, ignoring the evolution of patent law jurisprudence and basic principles of statutory interpretation, to hold that business method patents were valid.⁷

This paper, while agreeing with the concurring opinion given by Justice Stevens, seeks to highlight two principle arguments. Firstly, that the Congress never intended to bring business patents under the ambit of patentable subject matter and that there is no conflict between the provisions of the Patent Act and the First Inventor's Defence Act of 1999. Secondly, even if Congress did expand the scope of patentable subject matter, the Court should have scrutinized the text of the Constitution to hold business method patents as unconstitutional as a) business methods do not fall under the ambit of "process" as envisaged by the Constitution and b) Business methods not fulfil the "progress" mandate of the Constitution.

(PAPER)

INTRODUCTION: BUSINESS METHOD PATENTS, STATE STREET AND BILSKI'S POTENTIAL

A business method patent is a patent granted for a process which involves a method of conducting or doing business.⁸ While some argue that business method patents provide unnecessary and sometimes too broad a protection,⁹ others argue that business methods are essential for the development of commerce.¹⁰ The patentability of business methods was suspect and the Federal Court's decision in *State Street Bank and Trust Company v.*

⁷ *Id.*

⁸ Larry J. Guffey, *Business Method Patents: What they are-Why Clients and Service Provides Should Care*, 33-AUG Md. B.J.26.

⁹ Dratler, Jay, *Does Lord Darcy Yet Live? The Case Against Software And Business- Method Patents*, 43 Santa Clara Law Review 823-899.

¹⁰ Merton, Robert C. 1992, *Financial Innovation and Economic Performance*, 4 Journal of Applied Corporate Finance 12.

*Signature Financial Group, Inc.*¹¹, further intensified the debate over the issue. The Court in this case held that business methods are patentable thereby opening the flood gates for business method patent applications.¹² Subsequently, Congress decided to enact the First Inventor's Defence Act of 1999¹³ as a reaction to the Federal Court's judgment to protect business houses by granting them the defence of prior use.¹⁴ Therefore, when the question of patentability of the business method developed by *Bilski* and *Warsaw* reached the Supreme Court, many believed that the time had come for the Court to authoritatively define the boundaries of patentable subject matter.¹⁵ However, the Supreme Court in *Bilski v. Kappos*¹⁶ did nothing of such sort. Instead, as will be argued through the course of this paper, the majority took a more result oriented approach, ignoring the evolution of patent law jurisprudence and basic principles of statutory interpretation, to hold that business method patents were valid.¹⁷

This paper, while agreeing with the concurring opinion given by Justice Stevens, seeks to highlight two principle arguments. Firstly, that the Congress never intended to bring business patents under the ambit of patentable subject matter and that there is no conflict between the provisions of the Patent Act and the First Inventor's Defence Act of 1999. Secondly, even if Congress did expand the scope of patentable subject matter, the Court should have scrutinized the text of the Constitution to hold business method patents as unconstitutional as a) business methods do not fall under the ambit of "process" as

¹¹ *State Street Bank and Trust Company v. Signature Financial Group, Inc.*, 149 F.3d 1368

¹² Mark A. Lamely et al., *Life After Bilski*, 63 *Stan. L. Rev.* 1315.

¹³ First Inventor's Defence Act of 1999, 35 U.S.C. § 273(b).

¹⁴ *Id.*

¹⁵ Michael L. Kiklis, *Bilski v. Kappos: Back to 1981*, *Computer & Internet Law.*, Oct. 2010, at 1

¹⁶ *Bilski v. Kappos*, 130 S. Ct. 3218 (2010).

¹⁷ *Id.*

envisaged by the Constitution and b) Business methods not fulfil the “progress” mandate of the Constitution. However, the paper shall not be dealing with the concept of abstract ideas and the machine-or- transformation test, as discussed by the Court.

CONTEXTUALISING BILSKI: THE FACTS

In *Bilski v. Kappos*, a patent application was filed by Bilski and Warsaw for “a method of hedging risk in the field of commodities trading”¹⁸ wherein an intermediary would not only insulate market participants from drops in demand but also isolate consumers from the possibility of spikes in demand by supplying commodities to the consumers at a fixed price and buying the commodities from market participants at a fixed price.¹⁹ The examiner at the Patent and Trademark Office (PTO) rejected the claimed invention as not being in relation to “technological arts” as it was “not implemented on a specific apparatus and merely manipulated an abstract idea and solved a purely mathematical problem without any limitation to a practical application.”²⁰ When an appeal was filed against the PTO’s decision, though the Board of Patent Appeals and Interferences disagreed with the examiner's reasoning, it rejected the claims on the grounds that it did not involve any patent eligible transformation.²¹

Bilski and Warsaw then filed an appeal against the decision of the Board of Patent Appeals and Interferences’ to the Court of Appeals for the Federal Circuit. While affirming the Board’s decision, the Federal Circuit held that the *machine-or-*

¹⁸ *Supra*, n.9.

¹⁹ *Id.*

²⁰ *Id.*

²¹ *Id.*

transformation test was the sole test for determining patent eligibility of a process under § 101.²²

The matter reached the Supreme Court and the majority comprised of five judges of the Court, namely Justice Kennedy, Justice Roberts, Justice Thomas, Justice Alito and Justice Scalia. Justice Kennedy wrote the opinion for the Supreme Court and came to the same conclusion as the Federal Circuit majority i.e., Bilski's invention was not patentable subject matter. However, the rationale of the Court in arriving at the said conclusion differed from that of the Federal Circuit. The majority opinion had three important holdings- *firstly*, the machine-or-transformation test is not the sole test but an important clue in determining patentability. *Secondly*, and critical to the purposes of this article, that business methods fell under the ambit of patentable subject matter and *lastly*, that purely abstract ideas are not patentable.²³

The majority followed strict statutory interpretation of the term "method" in the Patent Act to hold that the patent law does not categorically exclude business methods. The majority further buttressed this point by stating that the business methods found mention in the infringement defence sections of the First Inventor's Defence Act of 1999 to support the rationale that circumstances exist when business methods would be patentable.²⁴

However, while giving his concurring opinion, Justice Stevens categorically excluded business methods from patent eligibility. Additionally, he held that the defence

²² *Id*

²³ *Id*

²⁴ *Id*

under the First Inventor's Act of 1999 was meant to protect those affected by the State Streets decision and was not meant to create a new category of patentable subject matter.²⁵

**CONGRESS DID NOT INTEND TO EXPAND THE SCOPE OF PATENTABLE SUBJECT MATTER BY
ENACTING THE ACT OF 1999**

The Court justified the validity of business method patents by turning to the First Inventor's Defence Act of 1999.²⁶ According to the Court, federal law clearly provided for the existence of business method patents. The Court's logic stemmed from the fact § 273(a)(3) of the aforementioned Act defines method as "a method of doing or conducting business" and § 273(b)(1) allows for an infringer to claim the defence of prior use if infringement is based on "a method in a patent."²⁷ Therefore according to the majority opinion, the Act concedes to the fact that business methods are patentable subject matter and hence fall under the ambit of §101.²⁸ The majority was of the opinion that if business methods were not patentable, then it would make § 273 meaningless, thereby violating the rule of statutory interpretation that statutory provisions cannot be interpreted in a way that make other provisions meaningless.²⁹

This view taken by the Court is highly erroneous and requires reconsideration. A careful analysis of the provisions of the First Inventor's Defence Act clearly points to the fact that Congress did not intend to apply the meaning of method as enunciated by the State Street's decision to either § 273 of the First Inventors' Defence Act or § 101 of the Patents

²⁵ *Id*

²⁶ *Supra*, n.9.

²⁷ § 273(b)(1) of the First Inventor's Defence Act of 1999 , 35 U.S.C. § 273(b).

²⁸ *Supra*, n.9.

²⁹ *Supra*, n.9.; *Hague v. Committee for Industries*, 307 U.S. 496, 529-530 (1939)

Act.³⁰ In fact, many commentators are of the opinion that Congress never intended to change the conditions under which patents could be granted by incorporating business methods into the scheme of § 101.³¹

It must be noted that principles of statutory interpretation prohibit the repeal of provisions by implication i.e., for a provision to be repealed, the Congress has to expressly repeal the same.³² If Justice Kennedy's reasoning is to be taken to its logical end, it would mean that the Congress impliedly repealed the meaning of the term "process" under §101 by enacting the First Inventor's Defence Act of 1999. The Court's conclusion that the existence of § 273 expanded the scope of §101 of the Patent Act cannot stand as such an expansion can only take place, as mentioned earlier, by an express acknowledgment by the Congress, something which the Congress did not do while enacting the Act of 1999.³³

However, if the aforementioned rationale is followed, the obvious argument would be that § 273 would be rendered meaningless, an argument endorsed by the majority in *Bilski*.³⁴ A careful analysis of the First Inventors' Defence Act rebuts the argument. The enactment was a direct response to the implications of the State Street Decision³⁵ and was intended to grant a prior user right to those businesses which were particularly susceptible to

³⁰ Peter S. Menell, *Forty Years Of Wondering In The Wilderness And No Closer To The Promised Homeland: Bilski's Superficial Textualism And The Missed Opportunity To Return Patent Law To Its Technology Mooring*, 63 Stan. L. Rev. 1304.

³¹ Malla Pollack, *The Multiple Unconstitutionality Of Business Method Patents: Common Sense, Congressional Consideration And Constitutional History*, 28 Rutgers Computer & Tech. L.J. 78.

³² *Branch v. Smith*, 538 U.S. 254, 273 (2003); *Whitman v. Am. Trucking Ass'ns*, 531 U.S. 457, 468 (2001)

³³ *Supra*, n. 14 at 1303.

³⁴ *Supra*, n.9..

³⁵ *State Street Bank and Trust Company v. Signature Financial Group, Inc.*, 149 F.3d 1368

the 1998 decision.³⁶ § 273(a) of the Act of 1999 defines the term “method” for the purposes of that section only³⁷ and hence it cannot be argued that Congress intended to apply the definition of “method” under the § 273 of the Act of 1999 universally³⁸, including §101 of the Patent Act. Therefore, the author submits that there is no conflict between the two provisions as § 273 is applicable only in limited scenarios and hence the argument that §273 would become meaningless cannot stand.

BUSINESS METHOD PATENTS DO NOT SATISFY CONSTITUTIONAL REQUIREMENTS

In this part of the article, the author shall try and argue that business method patents do not fall under the ambit of “useful Arts”. Additionally, the Constitutional requirements of “promotion of progress” are not met by business method patents

PROCESS, USEFUL ARTS AND TECHNOLOGY

The majority opinion in *Bilski* categorically held that §100 of Patent Act did not preclude business methods and that business methods fall under the ambit of the term “process”.³⁹ In fact, the Court used the dictionary definition of the term “method” to fit it within the contours of the term “process”.⁴⁰ In this part, the author shall try and argue that the Court erred in resolving the issue of patentability of business methods by referring to the dictionary meaning of the term “process” instead of appreciating the evolution of the term “process” in American Patent law jurisprudence.

³⁶ Robert M. M. Setto, *A Federal Judge's View Of The Most Important Changes In Patent Law In Half-A-Century*, 11 UFLJTLP 154., Neeraj Arora, *Disabling Patentability For Skill- Based Inventions: Aligning Patent Law With Competition Policy*, 22 SCCHITLJ 32.

³⁷ § 273 of the First Inventor’s Defence Act of 1999 , 35 U.S.C. § 273(b).

³⁸ *Supra*, n. 23 at 1304.

³⁹ *Supra*, n.9..

⁴⁰ *Id.*

Patentable subject matter under the Patent Act of 1952 does not differ too much from that of the 1793 Act.⁴¹ The key difference between the provisions of Act was the substitution of the word “process” for “art”.⁴² This substitution was not intended to bring about a substantive change in the usage of the term “art”⁴³ and even after the enactment the terms have been used interchangeably, at least in terms of their meaning.⁴⁴ This was done to primarily avoid textual confusion with the constitutional phrase “useful arts” and the concept of “prior art”.⁴⁵ Therefore, to fully analyse the patentability of business methods, it is important to dwell into the jurisprudential understanding of the term “art”.

It must be noted that Congress derives its power to enact patent laws from the Constitution and the Constitution itself lays boundaries on patentable subject matter.⁴⁶ The Constitution states that the Congress has the power to enact any law “*to promote the Progress of ... Science and useful Arts, by securing for limited times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.*”⁴⁷ In fact, the first Patent Act passed by the Congress was enacted “*to promote the progress of useful Arts*”⁴⁸ and all fourteen of the subsequent patent enactments also confined themselves to

⁴¹ Patent Act of 1793, Ch. 11, 1 Stat. 318-323.

⁴² Richard J. McNeely, *Governmental Indirect Patent Infringement: The Need To Hold Uncle Same Accountable Under 28 U.S.C. §1498*, 36 Cap. U. L. Rev. 1068;

⁴³ H.R. Rep. No. 82-1923, at 6 (1952).

⁴⁴ Bradford Chaucer, *Life, The Patent Office and Everything: Patentability of Life forms Created through Bioengineering Techniques*, 9 U. Bridgeport L. Rev. 418. See also, S. Rep. No. 82-1979, at (1952) reprinted in U.S.C.C.A.N. 2394, 2398.

⁴⁵ *Supra*, n. 23 at 1303; H.R. Rep. No. 82-1923, at 6 (1952)

⁴⁶ Susan J. Marsnik & Robert E. Thomas, *Drawing A Line In Patent Subject Matter Sands: Does Eurpoe Provide A Solution To The Software And Business Method Patent Process*, 34 B.C. Int'l & Comp. L. Rev. 241.

⁴⁷ U.S. Const. art. I, § 8, cl.8.

⁴⁸ Act of Apr. 10, 1790, ch. 7, 1 Stat. 109, 109.

“useful arts”⁴⁹ and hence Congress’ power to enact patent laws was limited to “useful arts”⁵⁰ It must be noted that though the term “useful arts” had not been defined either by the framers of the Constitution or Congress,⁵¹ the usage and context of the term at the time clearly highlights its meaning.

Commentators have stressed that the term “useful arts” was related to trades utilizing technology.⁵² They agree that at the time of drafting of the Constitution and enactment of the first few patent Acts, “useful arts” was understood as “mechanical arts”⁵³, an equivalent of the modern “technological art”⁵⁴ In fact a Federal Circuit Court went to the extent of claiming that patent right was “*constitutionally derived*” and “*was for the national purpose of advancing the useful arts- the process today called technological innovation*”⁵⁵ Therefore, authorities on patent law agreed that patents dealt with machinery, methods of manufacturing objects and composition of matter.⁵⁶

Taking the aforementioned views into account, business methods or methods of commerce do not fall under the category of “process” or “useful arts”. Business methods are nothing but methods dealing with business organization, management, business structuring and commercial planning.⁵⁷ More often than not, the end objective of a business

⁴⁹ Ernest Bainbridge Lipscomb III, LIPSCOMB'S WALKER ON PATENTS, 91 (1984).

⁵⁰ *Graham v. John Deere Co.*, 383 U.S. 1, 5 (1966).

⁵¹ Arthur H. Seidel, *The Constitution and a Standard of Patentability*, 48 J. Pat. Off. Soc'y 5, 10 (1966).

⁵² Karl B. Lutz, *Patents and Science: A Clarification of the Patent Clause of the U.S. Constitution*, 32 J. Pat. Off. Soc'y 83, 87 (1950).

⁵³ Susie I. Tucker, *Protean Shape: A Study in Eighteenth-Century Vocabulary and Usage*, 263 (1967).

⁵⁴ Robert I. Coulter, *The Field of the Statutory Useful Arts, Part II*, 34 J. of Pat. Off. Soc'y 487, 495-96 (1952); Giles S. Rich, *Principles of Patentability*, 28 Geo. Wash. L. Rev. 393, 393-94 (1960).

⁵⁵ *Paulik v. Rizkalla*, 760 F.2d 1270, 1276 (Fed. Cir. 1985).

⁵⁶ William C. Robinson, THE LAW OF PATENTS FOR USEFUL INVENTIONS, 159 (1890)

⁵⁷ Michael E. Melton, *The Business of Business Method Patents*, 589 PLI/Pat. 97, 103 (2000).

method is more commercially oriented than technologically oriented, with the primary aim being the advancement of commercial interest.⁵⁸ Business methods are, therefore, non technological arts⁵⁹ and fall under the ambit of commercial arts. As already argued, “useful arts” are technologically oriented and not commercially oriented. It must be noted that merely implementing the business method on a computer does not make it patentable and that unless and until it adds something to the computer or makes a technological advancement it cannot be patented.⁶⁰ Even if one argues that business methods involve an element of intellectual work and hence fall under the broad ambit of intellectual property, it does not fall under the category of “useful art”⁶¹ as envisaged by the Constitution framers and hence recognition of the business method patents would be unconstitutional.

***THE CONSTITUTIONAL REQUIREMENT OF “PROMOTION OF PROGRESS” AND
HOW BUSINESS METHODS ARE NOT LIKE OTHER PATENTABLE SUBJECT
MATTER:***

As already mentioned, the rationale behind the Constitutional provision granting the Congress power to enact laws relating to Patents is to “*promote the Progress of ... Science and useful Arts.*”⁶² In this part, the author shall try and argue that business method patents do not lead to progress and hence do not fulfil the constitutional criteria of patent eligibility.

⁵⁸ Robert P. Merges, *As Many as Six Impossible Patents Before Breakfast: Property Rights for Business Concepts and Patent System Reform*, 14 Berkeley Tech. L.J. 577, 579 n.5 (1999).

⁵⁹ *Supra*, n.49.

⁶⁰ Anthony William Deller, WALKER ON PATENTS, 69 (1937)

⁶¹ Malla Pollack, *Unconstitutional Incontestability? The Intersection of the Intellectual Property and Commerce Clauses of the Constitution: Beyond a Critique of Shakespeare Co. v. Silstar Corp.*, 18 Seattle Univ. L. Rev. 259, 270-99 (1995)

⁶² *Supra*, n. 40.

Advocates of business method patents argue that business method patents incentivize creation of better methods and therefore lead to progress and efficient market activity.⁶³ However, it must be noted that business methods have existed and flourished even before the business method patents were granted.⁶⁴ In fact, Stevens, J., in his concurring opinion in *Bilski*, supported this view by stating that “*Also noteworthy is what was not patented under the English system. During the 17th and 18th centuries, Great Britain saw innovation in business organization, business models, and management techniques, and novel solutions to the challenges of operating global firms in which subordinate managers could be reached only by a long sea voyage. Few if any of these methods of conducting business were patented.*”⁶⁵

However, granting patents to business methods can do more harm than good. Business method patents, by restricting access to methods, unnecessarily restrict development and create a monopoly, which further leads to price rise.⁶⁶ The counter to this argument could be that, firstly, other forms of patents are also plagued by the same draw backs. Secondly, monopoly over a method is a small price that the public has to pay to enjoy the fruits of the method. However, it must be noted that business methods are inherently different from other patentable subjects. Business methods, as already discussed, have a more commercial focus and hence are useful when they directly bring commercial gains. Therefore, unlike other patentable subject matters, people will not be dis-incentivized to develop better business methods simply because they don’t enjoy

⁶³ Daniel F. Spulber, *Should Business Method Inventions Be Patentable?*, 3 J. Legal Analysis 265.

⁶⁴ Allison, John R., & Emerson H. Tiller, *The Business Method Patent Myth*, 18 (4) Berkeley Technology Law Journal 997.

⁶⁵ *Supra*, n.9..

⁶⁶ *Supra*, n. 54 at 77.

patent protection as their survival in the market heavily depends upon development of newer and better business ideas and strategies.⁶⁷

Additionally, a unique feature of business methods is that business methods by themselves do not guarantee their success and that the application of the method plays a determinant factor in the success of the method.⁶⁸ To put it simply, a particular business method might work well for one entity but fail miserably for another entity. For example, unlike a cancer curing drug which has the potential of being a success in any market simply by virtue of its characteristics, a method of investment to hedge risk might not work in United Kingdom and yet work impeccably in the United States, merely because of the type of market and the players involved. Regarding monopoly, as it has already been argued, innovative business methods have been created and implemented and the effects of the same have trickled down to the public even before such patents were granted and hence the argument that the public enjoys the fruits of the method in exchange of the monopoly enjoyed by the patent holder seems weak.

Business method patents may also lead to a fortification of the industry against new entrants. As one commentator aptly puts it, *“The commercial success of the internet grew from the sheer ease of use. Successful businesses were created with nothing more than a combination of programming skills, a computer connected to the internet, and a good idea. Now any potential new player will have to consult a patent attorney before he or she even switches on a computer.”*⁶⁹ A situation may arise where a new entrant, interested in taking part in the industry and tapping its potential, may be required to take a license from

⁶⁷ *Supra*, n.24 at 76

⁶⁸ R Dreyfuss, *Are Business Method Patents Bad For Business*, (2000) Computer High Technology Law Journal 275.

⁶⁹ Alexander Sims, *The Patentability Of Business Methods*, 10 NZBLQ 379

the business method patent holder, which is quite clearly unfavourable to the overall development of the industry and commerce.

Therefore, a simple cost benefit analysis highlights the fact the business method patents do more harm than good. The general principles applicable to other patentable subject matter do not apply to business methods due to the inherent nature of business methods, as already explained in this article. With no clear cut benefit being derived from patenting business methods, either to the public or the innovator, the cost that will be incurred on granting patents for business methods i.e., fortification against new industry players, lack of innovation, inconclusive proof of success of the business method and the like clearly highlight that granting a patent to protect a business method will not lead to the constitutional requirement of “promotion of progress”.

However the majority in *Bilski* completely ignored the text of constitution as well as accepted constitutional principles and instead turned to a dictionary for answers. By acknowledging the patentability of business methods, the Court has unwittingly allowed for the flouting of the constitutional mandate when it had the opportunity to put the issue of patentability of business method to rest.

CONCLUSION: THE NEED FOR CONGRESS TO ACT

In *Bilski*, the Supreme Court was given the perfect opportunity to finally settle the debate about business method patents. Instead of dwelling deeper into patent law jurisprudence, the Court preferred to refer to a dictionary to arrive at conclusion. The flawed, and possibly dangerous, conclusion that business methods are patentable and the means adopted by the Court to arrive at the said conclusion highlight a very result-oriented approach by the Court. By answering the question of whether business methods are

patentable in the affirmative, the Court has opened the flood gates for business method patent applications. This article has already highlighted that business methods have far reaching negative implications and that such patents are not in tune with the “promotion of progress” which the constitutional provision hopes to achieve.

However, Justice Steven’s concurring opinion does shed some positive light. The originalistic interpretation adhered to in his concurring opinion would have easily settled the debate once and for all. The patent community can only hope that the matter comes up again before the Court and Justice Steven’s interpretation is followed to undo the wrong committed by the majority. In the meantime, the Congress should unequivocally clarify that business methods does not fall within the purview of patentable subject matter, on grounds of constitutional limitations as well as policy, to negate the ramifications of the *Bilski* decision. Additionally, the Congress should also expressly clarify that the business method defence inserted in the First Inventor’s Act of 1999 was only meant to shield certain business from the States Street decision and was not meant to be universally applied thereby expanding the scope of patentable subject matter.