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IP ARTICLE

A NOTE ON THE JOURNEY OF THE BILSKI PATENT APPLICATION

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Sometime before 2006, two distinguished gentlemen - Mr. Bilski and Mr. Warsaw – applied for a patent on a method of hedging risk in the field of commodities trading (hereinafter, the Bilski patent application). The following paper discusses, *In Re Bilski* (Serial No. 08/833,892), which marks the journey of the Bilski patent application from prosecution through litigation.

The Background

As mentioned above, the Bilski patent application sought to claim a method of protecting commodities trading from the risks. Any trading involves a certain level of risk. The commodity markets in particular are associated with several risks. Say, for example, trading in coal for the operation of power plants. Power plants are regular consumers of coal electricity and are therefore averse to the risks of increasing the price owing to increase in demand or cost of raw materials. Mining companies that supply coal are averse to the risk of a sudden drop in demand for coal as such a drop would reduce their sales and depress prices. Thus, both the consumers and suppliers are exposed to risks from trading.

The Bilski patent application sought to reduce the risk by creating an intermediary, the "commodity provider." The commodity provider acts as a buffer reducing the risks of the market. The commodity provider buys "rights" to both sell and buy the commodity – coal, in our example considered above - at a particular price and within a given timeframe. When the commodity provider buys the right to sell coal to the power plants at a fixed price, the power-plants become risk-protected in the event the price increases. Similarly, when the commodity provider purchases the right to buy coal at a fixed price, the mining company's risks are protected from any depression in coal prices. Thus, there is an assurance of stability for future planning for the buyer as well as the seller. Notably, the commodity provider also gets automatically risk-insured because when prices go up, they have already bought coal at an advantageous price from the mining company. Instead, if prices go down, the commodity provider can sell at an advantageous price to the power company. Termed as "hedging," this method of risk protection is generally used in trading with stocks and shares.

The Bilski patent application consisted of 11 method claims, but they did not involve trading in actual commodities; instead the application discloses the various (generic) steps of a transaction that will help the intermediary to secure options (right to sell and buy at a predetermined price and within a predetermined timeframe) in any commodity.

Procedural History

At the USPTO, the examiner rejected the patent application as being ineligible for protection under § 101 of Title 35, which limits the threshold for patentable subject matters to "new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof."

The examiner felt that the method claim filed was merely an abstract idea not directed towards *technological arts*.

On appeal, the Board concluded that the application method did not involve any transformation, and that transforming "non-physical financial risks and legal liabilities of the commodity provider, the consumer, and the market participants" is merely an abstract idea and not a patent-eligible subject matter.

court noted that changes in technology may result in either the same court or the Supreme Court refining or augmenting the existing paradigms in the test. Further, the court specifically pointed out that the Freeman-Walter-Abele test is rendered inadequate to determine patent eligibility. Similarly, the court held that the "useful, concrete and tangible result" was never intended to supplant the Supreme Court's test and that the test is also insufficient to determine patent-eligibility under § 101.

The Fate of the Bilski Application

Lastly, the court examined the *Bilski* application.

First, the court determined that Bilski's claim is a process claim because it recites fundamental principles other than mathematical algorithms. Next, the court went on to apply the machine-transformation test to determine if the process is patent eligible and concluded that the applicants' claim fails that test so it is not drawn to a "process" under § 101 of Title 35.

Dicta

The court emphatically rejected calls from amicus – mostly consisting of law professors – to include categorical exclusions to patent-eligibility. The court reaffirmed its rejection of categorical exclusions in *State Street*³, where it held that "business method exception" was unlawful and that business method claims (and indeed all process claims) are "subject to the same legal requirements for patentability as applied to any other process or method". Lastly, the court also cautioned other circuits and the PTO from paying short shrift to the machine-or-transformation test by calling it as "technological arts" or using any other fancy name, for that matter to avoid confusions.

³ *State Street Bank & Trust Co. v. Signature Financial Group*, 149 F. 3d 1368 (Fed. Cir. 1998)
