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### PATENTS

The authors note that recent Federal Circuit and Supreme Court decisions highlight the significant attention that patent eligibility under Section 101 will receive, particularly in method-based arts, such as emerging financial and medical technologies, as well as in arts involving natural laws or mathematical principles.

## The U.S. Supreme Court Trumps the Federal Circuit Procedure and the Threshold for Analyzing Subject Matter Eligibility of Patents



BY PATRICK C. KEANE AND SHAWN B. CAGE

**A** recent flurry of highly anticipated and hotly contested decisions from the U.S. Supreme Court and the U.S. Court of Appeals for the Federal Circuit over the last several weeks highlights that challenges to subject matter eligibility under 35 U.S.C. § 101 must be given serious attention by patent owners seeking to enforce their valued IP. These cases reflect the still evol-

*Patrick C. Keane and Shawn B. Cage are patent attorneys with Buchanan Ingersoll & Rooney, Alexandria, Va. Keane focuses his practice on intellectual property counseling, including patent litigation and IP portfolio development. He may be reached at (703) 838-6522 or [patrick.keane@bipc.com](mailto:patrick.keane@bipc.com). Cage focuses his practice on the preparation and prosecution of patent applications. He may be reached at (703) 299-6882 or [shawn.cage@bipc.com](mailto:shawn.cage@bipc.com).*

ing landscape of patentable subject matter assessment under U.S. law, and the critical importance of anticipating and addressing subject matter eligibility issues prior to filing for a U.S. patent or to pursuing monetization or enforcement of a granted U.S. patent.

On Feb. 27, the Federal Circuit acknowledged the protectability of business method patents in *Fort Properties Inc. v. American Master Lease LLC*, No. 2009-1242, 101 USPQ2d 1785 (Fed. Cir. 2012) (83 PTCJ 608, 3/2/12), but found that a method of creating a tax-deferred real estate investment instrument did not rise to the level of patentable subject matter under 35 U.S.C. § 101. A few days later in *MySpace Inc. v. GraphOn Corp.*, No. 2011-1149, 101 USPQ2d 1873 (Fed. Cir. 2012) (83 PTCJ 648, 3/9/12), the judges sparred over whether as a rule, Section 101 eligibility should be addressed in all patent cases prior to reviewing validity.

The U.S. Supreme Court then weighed in on March 20, in *Mayo Collaborative Services v. Prometheus Laboratories Inc.*, 132 S. Ct. 1289, 101 USPQ2d 1961 (2012) (83 PTCJ 727, 3/23/12), finding the Prometheus patent invalid under Section 101 and also declining “to

substitute §§ 102, 103, and 112 inquiries for the better established inquiry under § 101.”

These decisions highlight that calculated, strategic patent application drafting measures must be followed to ensure granting of valuable patents for emerging computer, financial, and biomedical technologies. Such measures include, for example, drafting claims to capture a transformation of natural laws or mathematical principles into patent eligible applications.

An analysis of these three decisions affords meaningful guidance for building a valuable patent portfolio.

### **The Fort Properties Court Recognizes High But Clearable Section 101 Hurdle**

The patent in the *Fort Properties* case is directed to an investment tool method designed to enable property owners to buy and sell properties in a way that complies with 26 U.S.C. § 1031 of the U.S. Internal Revenue Code.

The independent method claim recites the creating of a real estate investment instrument adapted for performing tax-deferred exchanges. The method includes aggregating real property to form a real estate portfolio, and encumbering property in the real estate portfolio with a master agreement.

Deedshares are created by dividing title in the real estate portfolio into a plurality of tenant-in-common deeds of at least one predetermined denomination. Each of the deedshares is subject to a provision in the master agreement for reaggregating the plurality of tenant-in-common deeds after a specified interval.

The Federal Circuit found that the method claim is tied to the physical world through deeds, contracts, and real property. However, the claims were held invalid as failing to constitute patentable subject matter under Section 101 because physical activities surrounding the deeds, contracts, and real property were deemed insufficient to render the claims patentable.

The court found that aggregating property, making it subject to an agreement, and issuing ownership interests to multiple parties are only mental processes and abstract intellectual concepts. The Federal Circuit relied on Supreme Court precedent concerning subject matter eligibility to find that while the “deeds” tied the claimed method to the physical world, the ties are “insufficient to impart patentability to the claim.”

More importantly, the court found that the computer limitation does not “play a significant part in permitting the claimed method to be performed” and is “simply insignificant post-solution activity.”

### **The MySpace Court Circumvents the Section 101 Hurdle**

In *MySpace*, the Federal Circuit majority decision held that the claims at issue were invalid for obviousness and anticipation over prior art.

The majority decision divided the court, as the decision was reached without evaluating eligibility of the patent’s claimed subject matter under Section 101. The majority boldly stated that Section 101 issues can be murky and should be avoided whenever possible. A blistering dissent took issue with this approach to assessing patent validity.

The *MySpace* case involved four patents having claims directed to subject matter whereby a user can create, modify, and search a database record over a

computer network. The claimed system enables users to control the creation and classification of the user’s own database entry over a computer network. Users can create a unique database entry and associate searchable categories to the entry.

The court found the claims invalid over prior art database systems. Invalidity hinged on a construing of the term “database,” which the court found was attributed a meaning that was no different from databases in existence prior to the patents’ filing dates.

The dissent asserted that the majority’s process for assessing validity was flawed because there was no separate analysis of the claims under Section 101. Without disputing the finding of invalidity, the dissent stated that the patent claims were clearly not directed to patentable subject matter, and that the invalidity analyses under Sections 102 and 103 could have been avoided.

The dissent reasoned that Section 101, and not Sections 102, 103, and 112, is a better tool for weeding out patents of dubious quality, and for establishing a high bar for patentable subject matter to prevent a chilling of creative endeavor.

This vocal disagreement among the judges over whether Section 101 would have been the more proper initial inquiry for assessing invalidity in the *MySpace* case provides extremely helpful insight into the underlying debate as to the purpose of Section 101, not only from a substantive perspective, but from a procedural point of view as well. This dissent not only sought to establish subject matter eligibility as a higher bar for obtaining patent protection for inventions based on natural laws and mathematical principles, but also to establish subject matter eligibility as an initial procedural hurdle to a patent’s validity.

This procedural hurdle to achieving subject matter eligibility was confirmed by the Supreme Court decision in the *Prometheus* case.

### **The Supreme Court Finds That the Section 101 Hurdle Cannot Be Evaded**

In *Prometheus*, the Supreme Court brought full circle the question of whether subject matter eligibility should be an initial inquiry in determining the validity of patent claims.

The claims at issue in *Prometheus* recite administering thiopurine to a subject, determining the level of thiopurine in the subject, and detailing an adjustment in administration of the drug based on the determined level of the drug in the patient. The claimed process allows for determining whether the drug dosage administered to a patient is too high based on the observed metabolism of the drug in the patient’s bloodstream.

The Supreme Court found the claims invalid under Section 101 as being directed to natural laws which describe relationships between concentrations of certain thiopurine metabolites in blood and the likelihood that a drug dosage will be ineffective or induce harmful side-effects. The relationship between dosage of a drug and metabolism was deemed to exist apart from human interaction. That is, human interaction, aside from administering dosage, played no role in achieving a desired result.

This decision is consistent with Supreme Court precedent regarding subject matter eligibility and bolsters the *Fort Properties* decision with a finding that there was not enough physical activity or interaction by a doctor to transform the natural law of drug metaboliza-

tion in a subject's bloodstream to constitute patentable subject matter. As already discussed, the *Fort Properties* court similarly found that there was not enough physical activity performed by a computer or processor to transform a mathematical principle of reaggregating deeds to constitute patentable subject matter.

The *Prometheus* court addressed the question of whether a Section 101 analysis should be a threshold inquiry when evaluating patent claims in its decision to "decline the Government's invitation to substitute §§ 102, 103, and 112 inquiries for the better established inquiry under § 101." The court's holding expresses the position set forth by the dissent in the *MySpace* decision. The *Prometheus* court explained that the various invalidity inquiries do not entirely overlap the Section 101 analysis, and therefore cannot always prevent non-eligible subject matter from being held patentable.

Justice Stephen G. Breyer, writing for the Supreme Court cited to earlier Supreme Court precedent to illustrate why a Section 101 analysis must be performed separately from a Section 102/103 analysis, stating: Sections 102 and 103

say nothing about treating laws of nature as if they were part of the prior art when applying those sections. And studiously ignoring all laws of nature when evaluating a patent application under §§ 102 and 103 would make all inventions unpatentable because all inventions can be reduced to underlying principles of nature, which, once known, make their implementation obvious.

Breyer distinguished a Section 101 analysis from a Section 112 analysis citing a legal article which stated that Section 112 "does not focus on the possibility that a law of nature (or its equivalent) that meets these conditions [of Section 112] will nonetheless create the kind of risk that underlies the law of nature exception, namely, the risk that a patent on the law would significantly impede future innovation." In other words, a patent could be drafted such that the claims comply with the enablement, written description, and definiteness requirements under Section 112, but still be substantially directed to a law of nature that would not pass muster under a Section 101 analysis.

### **Building Valued IP in the Evolving Landscape of What Constitutes Patent Eligible Subject Matter**

Based on the collective holdings in *Fort Properties*, *MySpace*, and *Prometheus*, patents directed to emerging medical and financial technologies or mathematical principles might fare better in a subject matter chal-

lenge if computer or human interaction is an integral and important aspect for achieving desired results.

Practitioners may wish to consider detailing, in a patent application still pending before the Patent and Trademark Office, how a relevant natural law or mathematical principle is intertwined with a computer processor or human interaction in a specific industrial implementation or application. For example, if the claim in *Prometheus* were redrafted to also recite that the drug level in a patient is affected by a specified human interaction or treatment step, then the claims might have stood a better chance to pass muster under current judicial interpretation of Section 101.

It is clear that attention to subject matter eligibility has become an even more critical aspect in the acquisition and enforcement of patents, and there is likely to be continued fallout in federal court decisions following *Prometheus* whereby multiple patents will be remanded to federal district court for fresh assessment of their subject matter eligibility. Moreover, in the wake of *Prometheus*, the PTO issued "preliminary guidance" to its examining corps. Examiners have been directed to ensure that "the claimed product or process amounts to significantly more than a law of nature, natural phenomenon, or an abstract idea with conventional steps specified at a high level of generality appended thereto." Memorandum to Patent Examining Corps, March 21, 2012 (83 PTCJ 766, 4/30/12).

Given the judicial and administrative hotbed of activity surrounding Section 101 issues, prudence and care must be exercised when drafting U.S. patent applications directed to technologies related to natural laws or mathematical principles. As the case law on this issue settles, one exemplary approach can be to draft claims in different statutory categories to avoid challenges to all claims of a pending patent application, and to increase the chances of surviving patent validity challenges based on subject matter eligibility.

While validity under Sections 102, 103, 112 will remain important issues, the recent Federal Circuit and Supreme Court decisions highlight the significant attention that patent eligibility under Section 101 will receive, particularly in method-based arts, such as emerging financial and medical technologies, as well as in arts involving natural laws or mathematical principles. This will include most software and business method patent applications.

However, patents that are carefully crafted to survive scrutiny under Section 101 could become even more valuable to a company's IP portfolio and bottom line revenue generation.