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PATENTABILITY

The authors suggest that the Federal Circuit's recent *MySpace Inc. v. GraphOn Corp.* could limit patent challenges under 35 U.S.C. § 101.

Subject Matter Ineligibility—The End of an Era?



BY SCOTT P. MCBRIDE AND JOSEPH M. BARICH

The U.S. Court of Appeals for the Federal Circuit's recent decisions regarding patent-eligible subject matter under 35 U.S.C. § 101 have received industry-wide notoriety. Late last year, several opinions were issued that shed light on the Federal Circuit's current doctrine and could potentially expand the use of the Section 101 defense.

Scott McBride is a patent attorney at Chicago-based McAndrews, Held & Malloy. He focuses on patent litigation and works with a wide array of technologies, with an emphasis on medical devices. He can be reached at smcbride@mcandrews-ip.com.

Joseph M. Barich is a shareholder at McAndrews, Held & Malloy, Chicago. He specializes in the development and monetization of patent portfolios and other IP rights. He also serves as an adjunct professor of law at the University of Illinois, where he teaches patent prosecution and directs the Patent Clinic. He can be reached at jbarich@mcandrews-ip.com.

In March, the court issued a decision in *MySpace Inc. v. GraphOn Corp.* that may severely limit challenges under Section 101. No. 2011-1149, 672 F. 3d 1250 101 USPQ2d 1873 (Fed. Cir. 2012) (83 PTCJ 648, 3/9/12). The consequences that could result from over-use of Section 101 as a barrier to patent-eligibility, in both claim rejections and as litigation defenses, might be troublesome.

Since the Supreme Court's 2010 decision in *Bilski v. Kappos*, 130 S.Ct. 3218, 95 USPQ2d 10012 (2010) (80 PTCJ 285, 7/2/6), it is generally accepted that the Federal Circuit will initially apply the machine-or-transformation test in determining whether a process claim is patent-eligible under Section 101. However, in *CyberSource*, for the first time known to the undersigned authors, the Federal Circuit applied the *Bilski* machine-or-transformation test to a claim outside the process class. See *CyberSource Corp. v. Retail Decisions Inc.*, 654 F.3d 1366, 99 USPQ2d 1690 (Fed. Cir. 2011) (82 PTCJ 528, 8/19/11).

A few observations are in order from *CyberSource* and another Federal Circuit opinion that followed two weeks later, *Classen Immunotherapies Inc. v. Biogen IDEC*, 659 F.3d 1057, 100 USPQ2d 1492 (Fed. Cir. Aug. 31, 2011) (82 PTCJ 650, 9/16/11). Those observations affected both patent procurement and patent litigation.

First, under *CyberSource*, applying the machine-or-transformation test outside the process class of Section 101 could result in a couple of major issues going forward. It would encourage, for example, extensive litigation of subject matter-ineligibility in nearly every case involving information technology or computers.

Second, the confusion among opinions of the Federal Circuit addressing Section 101 was likely attributable to the Federal Circuit's de facto application of a "technological arts" test, as *Classen* revealed. Third, the non-prior art defenses (especially Section 101) had the potential to become the defense of choice for parties seeking to dispose of a case without delving too deeply into the technology.

The Federal Circuit's decision in *MySpace*, however, may have significantly dampened invalidity challenges under Section 101.

Regardless of whether *CyberSource* reached the correct result regarding the non-process claim at issue (Claim 3), one portion of the court's analysis could make patent litigation even more complicated and expensive. More specifically, three exceptions to the broad statement of patent-eligible subject matter have been identified in Section 101. These exceptions (abstract ideas, laws of nature and natural phenomena) apply to every claim, regardless of the class of patent-eligible subject matter (process, machine, manufacture, or composition of matter).

In contrast to the exceptions applying to all classes of claims under Section 101, prior to *CyberSource*, the *Bilski* machine-or-transformation test had been applied only to process claims. However, the Federal Circuit in *CyberSource* disregarded the actual class (and language) of the claim and "treat[ed]" it as a process claim for the patent eligibility analysis under Section 101. See 654 F.3d at 1375.

Specifically, the court "look[ed] to the underlying invention for patent-eligibility purposes," regardless of what statutory category the claim's language was crafted to literally invoke. (Emphasis added). This seemingly unsupported extension of the *Bilski* decision outside of the process class was apparently not even needed.

The court had already found that the corresponding process claim was not patent eligible, in part because it was an abstract idea that effectively precluded the entire field of verifying the validity of credit card transactions over the Internet. This same logic could have been applied to the non-process claims, without resorting to the machine-or-transformation test.

Moving forward, *CyberSource* encouraged heavier reliance on Section 101 as a defense, including further application of the *Bilski* machine-or-transformation test to claims outside the process class in the electrical arts, especially in the areas of computers and computer software. This has also had the potential to encourage the Patent and Trademark Office, accused infringers, and courts to disregard the actual form and literal language of a claim and decipher its "essence" or "heart" for purposes of invalidity for lack of patent-eligibility.

The Federal Circuit's decision in *MySpace*, however, may have significantly altered the timing and applicability of Section 101 challenges, in both the prosecution and the litigation of patents.

In *MySpace*, the Federal Circuit attempted to prevent Section 101 defenses from becoming a plague on patent litigation. Specifically, the Federal Circuit invited dis-

trict courts to avoid Section 101 defenses "as a matter of case management summarily put[ting] aside the § 101 defense on whatever grounds seem applicable in the case." (Slip op. at 20.)

It appears that the Federal Circuit meant to encourage district courts to delay the issue for a decision later in the litigation (if a decision becomes necessary), or at least until the courts and the PTO are able to "solv[e] the puzzle of § 101." (See Slip op. at 20 n.20.) Apparently, the solution involves lowering the threshold for meeting subject matter patentability under Section 101.

For example, the Federal Circuit, in reaching the above conclusion, reasoned that "courts should avoid reaching for interpretations of broad provisions, such as § 101, when more specific statutes, such as §§ 102, 103, and 112, can decide the case." (Slip op. at 18.)

The Federal Circuit also reasoned that "[a]dopting th[e] practice [of addressing Section 102, 103 and 112 issues first] would also preclude § 101 claims from becoming the next toss-in for every defendant's response to a patent infringement suit, particularly in business method litigation." (Slip op. at 19.) The court noted that it had "wrestled for years with the toss-in problem when defendants claimed 'inequitable conduct' in just about every infringement case."

"Only recently did we finally fashion the stopper, which we hope will work," the court added, pointing to *Therasense Inc. v. Becton, Dickinson & Co.*, 649 F.3d 1276, 99 USPQ2d 1065 (Fed. Cir. 2011) (82 PTCJ 140, 6/3/11). "We need not go through a similar exercise with § 101," it stressed. *Id.*

But the Federal Circuit does not mean to preclude, in all cases, Section 101 from being an "initial" invalidity defense raised in a patent infringement suit. According to *MySpace*, two areas where Section 101 patent eligibility should remain as initial defenses are (1) certain technology fields that involve laws of nature or physical phenomena (such as, apparently, "isolated DNA"); and (2) business method patents in which "it is clear and convincing beyond peradventure—that is, under virtually any meaning of 'abstract'—that the claim at issue is well over the line." (Slip op. at 15.)

One problem with the court's approach is that it assumes that a given patent is invalid under Section 102, 103, or 112. This assumption relies on the theory that one can easily distinguish poor quality patents from "high quality patents." Indeed, the court explained in *MySpace* that, "in the typical patent case, litigation over the question of validity of the patent would be concluded under [Section 102, 103, and 112], and it would be unnecessary to enter the murky morass that is § 101 jurisprudence." (Slip op. at 17.)

Of course, the only way for the question of validity to be fully "concluded" under only those sections is to conclude that the patent is invalid (as the district court and Federal Circuit did in *MySpace*). *MySpace* instructs district courts to "avoid reaching for interpretations of broad provisions, such as § 101, when more specific statutes, such as §§ 102, 103, and 112, can decide the case." (Slip op. at 18.)

But whether Sections 102, 103, and 112 can dispose of a case is a fact-intensive inquiry (albeit sometimes amenable to summary judgment), which typically cannot be decided during initial case management.

The goal of the *MySpace* decision appears to be judicial efficiency. But while the *MySpace* majority's guidance may save time for district judges deciding patent

cases, parties may still be encouraged to fully litigate the Section 101 issues, even if the district court ultimately does not resolve them.

The majority's solution appears to be a joint venture between the courts and the PTO to come up with a better test for patent eligibility under Section 101. It is not clear what the court would propose if and when a better test is achieved.

The *MySpace* dissent, on the other hand, would address Section 101 eligibility as a threshold question,

purportedly saving the parties money by preventing the parties from having to litigate the technically-complex issues involved in a defense under Section 102, 103, or 112. In the meantime, parties will likely continue to litigate all issues, at great cost to their clients.

At a minimum, perhaps district courts following the majority's lead will be better able to manage their patent cases.