ULTRAMERCIAL, INC., AND ULTRAMERCIAL, LLC, Plaintiffs-Appellants, v. HULU, LLC, Defendant, AND WILDTANGENT, INC., Defendant-Appellee.

2010-1544

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

2013 U.S. App. LEXIS 12715*; *107 U.S.P.Q.2D (BNA) 1193

June 21, 2013, Decided

PRIOR HISTORY: [*1]

Appeal from the United States District Court for the Central District of California in No. 09-CV-6918, Judge R.Gary Klausner.

WildTangent, Inc. v. Ultramercial, LLC, 132 S. Ct. 2431, 182 L. Ed. 2d 1059, 2012 U.S. LEXIS 3890 (U.S., 2012)

Ultramercial, LLC v. Hulu, LLC, 413 Fed. Appx. 276, 2011 U.S. App. LEXIS 5470 (Fed. Cir., 2011)

CASE SUMMARY:

PROCEDURAL POSTURE: The United States District Court for the Central District of California dismissed this patent suit by holding that the patent in suit did not claim patent-eligible subject matter under *35 U.S.C.S. § 101*. In an earlier decision, the court reversed the district court's holding and remanded. On appeal to the Supreme Court, that decision was vacated and remanded.

OVERVIEW: The patent claimed a method for distributing copyrighted products (e.g., songs, movies, books) over the Internet where the consumer received a copyrighted product for free in exchange for viewing an advertisement, and the advertiser paid for the copyrighted content. The district court held the asserted claim to be ineligible because it was abstract. On review, the court concluded that the patent did not simply claim the age-old idea that advertising could serve as currency. The claim did not cover the use of advertising as currency disassociated with any specific application of that activity. Instead, the claim was a specific application of a method implemented by several computer systems, operating in tandem, over a communications network. The patent here required, among other things, controlled interaction with a consumer over an Internet website, something far removed from purely mental steps. As a practical application of the general concept of advertising as currency and an improvement to prior art technology, the claimed invention was not so manifestly abstract as to override the statutory language of *35 U.S.C.S. § 101*.

OUTCOME: The court reversed the district court's dismissal of the patentee's patent claims for lack of subject matter eligibility and remanded for further proceedings.

LexisNexis(R) Headnotes

Civil Procedure > Pleading & Practice > Defenses, Demurrers & Objections > Failures to State Claims
Civil Procedure > Appeals > Standards of Review > De Novo Review
Patent Law > Subject Matter > General Overview

[HN1] The United States Court of Appeals for the Federal Circuit reviews a district court's dismissal for failure to state a claim under the law of the regional circuit. The United States Court of Appeals for the Ninth Circuit reviews de novo challenges to a dismissal for failure to state a claim under *Fed. R. Civ. P. 12(b)(6)*. The Federal Circuit also reviews the ultimate determination regarding patent-eligible subject matter under *35 U.S.C.S. § 101* without deference.

Civil Procedure > Pleading & Practice > Defenses, Demurrers & Objections > Failures to State Claims
Patent Law > Infringement Actions > Defenses > Patent Invalidity > Validity Presumption
Patent Law > Subject Matter > General Overview

[HN2] It will be rare that a patent infringement suit can be dismissed at the pleading stage for lack of patentable subject matter. This is so because every issued patent is presumed to have been issued properly, absent clear and convincing evidence to the contrary. Further, if *Fed. R. Civ. P. 12(b)(6)* is used to assert an affirmative defense, dismissal is appropriate only if the well-pleaded factual allegations in the complaint, construed in the light most favorable to the plaintiff, suffice to establish the defense. Thus, the only plausible reading of the patent must be that there is clear and convincing evidence of ineligibility. For those reasons, *Rule 12(b)(6)* dismissal for lack of eligible subject matter will be the exception, not the rule.

Civil Procedure > Pleading & Practice > Defenses, Demurrers & Objections > Failures to State Claims
Patent Law > Subject Matter > General Overview
[HN3] The analysis under *35 U.S.C.S. § 101*, while ultimately a legal determination, is rife with underlying factual issues. For example, there is no doubt the *§ 101* inquiry requires a search for limitations in the claims that narrow or tie the claims to specific applications of an otherwise abstract concept. Further, factual issues may underlie determining whether the patent embraces a scientific principle or abstract idea. If the question is whether genuine human contribution is required, and that requires more than a trivial appendix to the underlying abstract idea, and were not at the time of filing routine, well-understood, or conventional, factual inquiries likely abound. Almost by definition, analyzing whether something was "conventional" or "routine" involves analyzing facts. Likewise, any inquiry into the scope of preemption--how much of the field is "tied up" by the claim--by definition will involve historic facts: identifying the "field," the available alternatives, and preemptive impact of the claims in that field. The presence of factual issues coupled with the requirement for clear and convincing evidence normally will render dismissal under *Fed. R. Civ. P. 12(b)(6)* improper.

Patent Law > Infringement Actions > Claim Interpretation > General Overview
Patent Law > Infringement Actions > Defenses > Patent Invalidity > General Overview
[HN4] The United States Court of Appeals for the Federal Circuit has never set forth a bright line rule requiring district courts to construe claims before determining subject matter eligibility. Indeed, because eligibility is a coarse gauge of the suitability of broad subject matter categories for patent protection, claim construction may not always be necessary for a *35 U.S.C.S. § 101* analysis. On the other hand, if there are factual disputes, claim construction should be required. The procedural posture of the case may indicate whether claim construction is required.

Patent Law > Infringement Actions > Claim Interpretation > General Overview
Patent Law > Subject Matter > General Overview
[HN5] The question of eligible subject matter under *35 U.S.C.S. § 101* must be determined on a claim-by-claim basis. Construing every asserted claim and then conducting a *§ 101* analysis may not be a wise use of judicial resources.

Patent Law > Subject Matter > General Overview
[HN6] *35 U.S.C.S. § 101* controls the inquiry into patentable subject matter. *Section 101* sets forth the categories of subject matter that are eligible for patent protection: whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title. Underscoring its breadth, *§ 101* both uses expansive categories and modifies them with the word "any." In Bilski, the Supreme Court emphasized that in choosing such expansive terms modified by the comprehensive any, Congress plainly contemplated that the patent laws would be given wide scope.

Patent Law > Subject Matter > Processes > General Overview
[HN7] The pertinent, expansive definition of "process" in *35 U.S.C.S. § 100(b)* confirms the statute's intended breadth. Not only did Congress expand the definition of "process" in 1952, Title 35 does not list a single ineligible category. At a time when Congress considered *35 U.S.C.S. § 101*, it broadened the statute and certainly did not place any specific limits on it.

Patent Law > Subject Matter > General Overview
[HN8] The limited role of *35 U.S.C.S. § 101* even in patentability is confirmed by other aspects of the Patent Act. As *§ 101* itself expresses, subject matter eligibility is merely a threshold check; patentability of a claim ultimately depends on the conditions and requirements of title 35, such as novelty, non-obviousness, and adequate disclosure. *35 U.S.C.S. § 101*. By directing attention to the substantive criteria for patentability, Congress made it clear that the categories of patent-eligible subject matter are no more than a coarse eligibility filter. In other words, Congress made it clear that the expansive categories--process, machine, article of manufacture, and composition of matter--are not substitutes for the substantive

patentability requirements set forth in *35 U.S.C.S. §§ 102*, *103*, and *112* and invoked expressly by *§ 101* itself. After all, the purpose of the Patent Act is to encourage innovation, and the use of broadly inclusive categories of statutory subject matter ensures that ingenuity receives a liberal encouragement. The plain language of the statute provides that any new, non-obvious, and fully disclosed technical advance is eligible for protection.

Patent Law > Subject Matter > General Overview
[HN9] In line with the broadly permissive nature of *35 U.S.C.S. § 101*'s subject matter eligibility principles and the structure of the Patent Act, case law has recognized only three narrow categories of subject matter outside the eligibility bounds of *§ 101*--laws of nature, physical phenomena, and abstract ideas. The Supreme Court's motivation for recognizing exceptions to this broad statutory grant was its desire to prevent the "monopolization" of the basic tools of scientific and technological work, which might tend to impede innovation more than it would tend to promote it. Though recognizing these exceptions, the Court has also recognized that these implied exceptions are in obvious tension with the plain language of the statute, its history, and its purpose. As the Supreme Court has made clear, too broad an interpretation of these exclusions from the grant in *§ 101* could eviscerate patent law.

Patent Law > Subject Matter > General Overview
[HN10] The United States Court of Appeals for the Federal Circuit must not read *35 U.S.C.S. § 101* so restrictively as to exclude unanticipated inventions because the most beneficial inventions are often unforeseeable. Broad inclusivity is the Congressional goal of *§ 101*, not a flaw.

Patent Law > Subject Matter > General Overview
[HN11] Because patent eligibility requires assessing judicially recognized exceptions against a broad and deliberately expanded statutory grant, one of the principles that must guide an eligibility inquiry is the exceptions should apply narrowly. Indeed, the Supreme Court has cautioned that, to avoid improper restraints on statutory language, acknowledged exceptions thereto must be rare.

Patent Law > Infringement Actions > Defenses > Patent Invalidity > Validity Presumption
Patent Law > Subject Matter > General Overview
[HN12] The presumption of proper issuance applies to a granted patent. As a practical matter, because judicially acknowledged exceptions could eviscerate the statute, application of this presumption and its attendant evidentiary burden is consistent with the Supreme Court's admonition to cabin exceptions to *35 U.S.C.S. § 101*. Further, applying the presumption is consistent with patent office practice. Before issuing a patent, the Patent Office rejects claims if they are drawn to ineligible subject matter, just as it rejects claims if not compliant with *35 U.S.C.S. §§ 102*, *103*, or *112*. With one exception, the Supreme Court's decisions since 1952 have addressed the propriety of those decisions. Thus, when a patent issues, it does so after the Patent Office assesses and endorses its eligibility under *§ 101*, just as it assesses and endorses its patentability under the other provisions of Title 35.

Evidence > Procedural Considerations > Burdens of Proof > Clear & Convincing Proof
Patent Law > Subject Matter > General Overview
[HN13] A high level of proof applies to patent eligibility as it does to the separate patentability determinations. Accordingly, any attack on an issued patent based on a challenge to the eligibility of the subject matter must be proven by clear and convincing evidence.

Patent Law > Subject Matter > Processes > General Overview
[HN14] Defining "abstractness" has presented difficult problems, particularly for the *35 U.S.C.S. § 101* "process" category. Clearly, a process need not use a computer, or some machine, in order to avoid "abstractness." In this regard, the Supreme Court recently examined the statute and found that the ordinary, contemporary, common meaning of "method" may include even methods of doing business. Accordingly, the Court refused to deem business methods ineligible for patent protection and cautioned against reading into the patent laws limitations and conditions which the legislature has not expressed.

Patent Law > Subject Matter > Processes > General Overview
[HN15] The Supreme Court has rejected using a machine-or-transformation test as the exclusive metric for determining the subject matter eligibility of processes, noting that the machine-or-transformation test is simply a useful and important clue, an investigative tool, for determining whether some claimed inventions are processes under *35 U.S.C.S. § 101* and is not the sole test for deciding whether an invention is a patent-eligible process. While machine-or-transformation logic served well as a tool to evaluate the subject matter of Industrial Age processes, that test has far less application to the inventions of the Information Age. Technology without anchors in physical structures and mechanical steps simply

defy easy classification under the machine-or-transformation categories. As the Supreme Court suggests, mechanically applying that physical test risks obscuring the larger object of securing patents for valuable inventions without transgressing the public domain.

Patent Law > Subject Matter > Processes > General Overview

[HN16] Members of both the Supreme Court and the United States Court of Appeals for the Federal Circuit have recognized the difficulty of providing a precise formula or definition for the abstract concept of abstractness. Because technology is ever-changing and evolves in unforeseeable ways, substantial weight is given to the statutory reluctance to list any new, non-obvious, and fully disclosed subject matter as beyond the reach of Title 35.

Patent Law > Subject Matter > General Overview

[HN17] A patent claim can embrace an abstract idea and still be patentable. A claim is not patent eligible only if, instead of claiming an application of an abstract idea, the claim is instead the abstract idea itself. The inquiry is to determine on which side of the line the claim falls: does the claim cover only an abstract idea, or instead does the claim cover an application of an abstract idea?

Patent Law > Subject Matter > Processes > General Overview

[HN18] In determining the eligibility of a claimed process for patent protection under *35 U.S.C.S. § 101*, the claims must be considered as a whole. It is inappropriate to dissect the claims into old and new elements and then to ignore the presence of the old elements in the analysis. This is particularly true in a process claim because a new combination of steps in a process may be patentable even though all the constituents of the combination were well known and in common use before the combination was made.

Patent Law > Subject Matter > General Overview

[HN19] It has long been recognized that any patent claim can be stripped down, simplified, generalized, or paraphrased to remove all of its concrete limitations, until at its core, something that could be characterized as an abstract idea is revealed. A court cannot go hunting for abstractions by ignoring the concrete, palpable, tangible limitations of the invention the patentee actually claims. Instead, the relevant inquiry is whether a claim, as a whole, includes meaningful limitations restricting it to an application, rather than merely an abstract idea. For these reasons, a claim may be premised on an abstract idea and, indeed, the abstract idea may be of central importance to the invention--the question for patent eligibility is whether the claim contains limitations that meaningfully tie that abstract idea to an actual application of that idea through meaningful limitations.

Patent Law > Subject Matter > Processes > General Overview

[HN20] The Supreme Court has stated that a patent claim is not meaningfully limited if it merely describes an abstract idea or simply adds "apply it." If a claim covers all practical applications of an abstract idea, it is not meaningfully limited. For example, allowing petitioners to patent risk hedging would pre-empt use of this approach in all fields, and would effectively grant a monopoly over an abstract idea. While this concept is frequently referred to as "pre-emption," it is important to remember that all patents "pre-empt" some future innovation in the sense that they preclude others from commercializing the invention without the patentee's permission. Pre-emption is only a subject matter eligibility problem when a claim pre-empts all practical uses of an abstract idea.

Patent Law > Subject Matter > Processes > General Overview

[HN21] When the steps of the patent claim must be taken in order to apply the abstract idea in question, the claim is essentially no different from saying apply the abstract idea. It is not the breadth or narrowness of the abstract idea that is relevant, but whether the claim covers every practical application of that abstract idea.

Patent Law > Subject Matter > Processes > General Overview

[HN22] Even if a patent claim does not wholly pre-empt an abstract idea, it still will not be limited meaningfully if it contains only insignificant or token pre- or post-solution activity--such as identifying a relevant audience, a category of use, field of use, or technological environment. These may involve factual inquiries.

Patent Law > Subject Matter > Processes > General Overview

[HN23] The Supreme Court has stated that a patent claim is not meaningfully limited if its purported limitations provide no real direction, cover all possible ways to achieve the provided result, or are overly-generalized. Just as the Supreme Court has indicated when a claim likely should not be deemed meaningfully limited, it has

also given examples of meaningful limitations which likely remove claims from the scope of the Court's judicially created exceptions to *35 U.S.C.S. § 101*. Thus, a claim is meaningfully limited if it requires a particular machine implementing a process or a particular transformation of matter. A claim also will be limited meaningfully when, in addition to the abstract idea, the claim recites added limitations which are essential to the invention. In those instances, the added limitations do more than recite pre- or post-solution activity, they are central to the solution itself. And, in such circumstances, the abstract idea is not wholly pre-empted; it is only preempted when practiced in conjunction with the other necessary elements of the claimed invention.

Patent Law > Subject Matter > General Overview

[HN24] In specifying what the scope of the abstract idea exception to patent eligibility is, it is also important to specify what the analysis is not. Principles of patent eligibility must not be conflated with those of validity. The Supreme Court repeatedly has cautioned against conflating the analysis of the conditions of patentability in the Patent Act with inquiries into patent eligibility. Because a new combination of old steps is patentable, as is a new process using an old machine or composition, subject matter eligibility must exist even if it was obvious to use the old steps with the new machine or composition. Otherwise the eligibility analysis ignores the text of *35 U.S.C.S. §§ 101* and *100(b)*, and reads *35 U.S.C.S. § 103* out of the Patent Act.

Patent Law > Subject Matter > Processes > General Overview

[HN25] The Supreme Court's reference to "inventiveness" in Prometheus can be read as shorthand for its inquiry into whether implementing the abstract idea in the context of the claimed invention inherently requires the recited steps. Thus, in Prometheus, the Supreme Court recognized that the additional steps were those that anyone wanting to use the natural law would necessarily use. If, to implement the abstract concept, one must perform the additional step, or the step is a routine and conventional aspect of the abstract idea, then the step merely separately restates an element of the abstract idea, and thus does not further limit the abstract concept to a practical application.

Patent Law > Subject Matter > Processes > Computer Software & Mental Steps

[HN26] When assessing computer implemented claims, while the mere reference to a general purpose computer will not save a method claim from being deemed too abstract to be patent eligible, the fact that a claim is limited by a tie to a computer is an important indication of patent eligibility. This tie to a machine moves it farther away from a claim to the abstract idea itself. Moreover, that same tie makes it less likely that the claims will pre-empt all practical applications of the idea. This inquiry focuses on whether the claims tie the otherwise abstract idea to a specific way of doing something with a computer, or a specific computer for doing something; if so, they likely will be patent eligible. On the other hand, claims directed to nothing more than the idea of doing that thing on a computer are likely to face larger problems. While no particular type of limitation is necessary, meaningful limitations may include the computer being part of the solution, being integral to the performance of the method, or containing an improvement in computer technology. A special purpose computer, i.e., a new machine, specially designed to implement a process may be sufficient.

Patent Law > Subject Matter > Processes > Computer Software & Mental Steps

[HN27] Where a patent claim is tied to a computer in a specific way, such that the computer plays a meaningful role in the performance of the claimed invention, it is as a matter of fact not likely to pre-empt virtually all uses of an underlying abstract idea, leaving the invention patent eligible. Inventions with specific applications or improvements to technologies in the marketplace are not likely to be so abstract that they override the statutory language and framework of the Patent Act.

Civil Procedure > Pleading & Practice > Defenses, Demurrers & Objections > Failures to State Claims
Patent Law > Subject Matter > Processes > New Uses

[HN28] With respect to a motion under *Fed. R. Civ. P. 12(b)(6)* claiming a patent involved ineligible subject matter, the complaint and the patent must by themselves show clear and convincing evidence that the claim is not directed to an application of an abstract idea, but to a disembodied abstract idea itself. After all, unlike the Copyright Act which divides ideas from expression, the Patent Act, *35 U.S.C.S. § 101 et seq.*, covers and protects any new and useful technical advance, including applied ideas.

Patent Law > Subject Matter > Processes > General Overview

[HN29] When assessing the abstract idea exception, the *35 U.S.C.S. § 101* inquiry is a two-step one: first, whether the claim involves an intangible abstract idea; and if so, whether meaningful limitations in the claim make it

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