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Federal Circuit Patent Bulletin: *Ultramercial, LLC v. Hulu, LLC*

November 14, 2014

"[W]e do not purport to state that all claims in all software-based patents will necessarily be directed to an abstract idea [and we disagree] that the addition of merely novel or non-routine components to the claimed idea necessarily turns an abstraction into something concrete."

On November 14, 2014, in *Ultramercial, LLC v. Hulu, LLC*, the U.S. Court of Appeals for the Federal Circuit (Lourie,* Mayer, O'Malley), on remand from the U.S. Supreme Court, affirmed the district court's dismissal of Ultramercial's complaint based on the ruling that U.S. Patent No. 7,346,545, which related to a method for distributing copyrighted media products over the Internet where the consumer receives a copyrighted media product at no cost in exchange for viewing an advertisement and the advertiser pays for the copyrighted content, was invalid under 35 U.S.C. § 101 for lack of patentable subject matter. The Federal Circuit stated:

A § 101 analysis begins by identifying whether an invention fits within one of the four statutorily provided categories of patent-eligible subject matter: processes, machines, manufactures, and compositions of matter. Section 101 "contains an important implicit exception: Laws of nature, natural phenomena, and abstract ideas are not patentable." . . . "First, we determine whether the claims at issue are directed to one of those patent-ineligible concepts." If not, the claims pass muster under § 101. Then, in the second step, if we determine that the claims at issue are directed to one of those patent-ineligible concepts, we must determine whether the claims contain "an element or combination of elements that is 'sufficient to ensure that the patent

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in practice amounts to significantly more than a patent upon the [ineligible concept] itself.'" . . .

An examination of the claim limitations of the '545 patent shows that claim 1 includes eleven steps for displaying an advertisement in exchange for access to copyrighted media. . . . This ordered combination of steps recites an abstraction—an idea, having no particular concrete or tangible form. The process of receiving copyrighted media, selecting an ad, offering the media in exchange for watching the selected ad, displaying the ad, allowing the consumer access to the media, and receiving payment from the sponsor of the ad all describe an abstract idea, devoid of a concrete or tangible application. Although certain additional limitations, such as consulting an activity log, add a degree of particularity, the concept embodied by the majority of the limitations describes only the abstract idea of showing an advertisement before delivering free content.

[W]e do not purport to state that all claims in all software-based patents will necessarily be directed to an abstract idea. Future cases may turn out differently. But here, the '545 claims are indeed directed to an abstract idea, which is, as the district court found, a method of using advertising as an exchange or currency. We do not agree with Ultramercial that the addition of merely novel or non-routine components to the claimed idea necessarily turns an abstraction into something concrete. . . .

The second step in the analysis requires us to determine whether the claims do significantly more than simply describe that abstract method. We must examine the limitations of the claims to determine whether the claims contain an "inventive concept" to "transform" the claimed abstract idea into patent-eligible subject matter. The transformation of an abstract idea into patent-eligible subject matter "requires 'more than simply stat[ing] the [abstract idea] while adding the words 'apply it.'" "A claim that recites an abstract idea must include 'additional features' to ensure 'that the [claim] is more than a drafting effort designed to monopolize the [abstract idea].'" Those "additional features" must be more than "well-understood, routine, conventional activity."

We conclude that the limitations of the '545 claims do not transform the abstract idea that they recite into patent-eligible subject matter because the claims simply instruct the practitioner to implement the abstract idea with routine, conventional activity. None of these eleven individual steps, viewed "both individually and 'as an ordered combination,'" transform the nature of the claim into patent-eligible subject matter. The majority of those steps comprise the abstract concept of offering media content in exchange for viewing an advertisement. [T]he claimed sequence of steps comprises only "conventional steps, specified at a high level of generality," which is insufficient to supply an "inventive concept." Indeed, the steps of consulting and

updating an activity log represent insignificant "data-gathering steps," and thus add nothing of practical significance to the underlying abstract idea. Further, that the system is active, rather than passive, and restricts public access also represents only insignificant "[pre]-solution activity," which is also not sufficient to transform an otherwise patent-ineligible abstract idea into patent-eligible subject matter.

The claims' invocation of the Internet also adds no inventive concept. [T]he use of the Internet is not sufficient to save otherwise abstract claims from ineligibility under § 101. Narrowing the abstract idea of using advertising as a currency to the Internet is an "attempt[] to limit the use" of the abstract idea "to a particular technological environment," which is insufficient to save a claim. Given the prevalence of the Internet, implementation of an abstract idea on the Internet in this case is not sufficient to provide any "practical assurance that the process is more than a drafting effort designed to monopolize the [abstract idea] itself."
. . .

A claimed process can be patent-eligible under § 101 if: "(1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing." The claims of the '545 patent, however, are not tied to any particular novel machine or apparatus, only a general purpose computer. [T]he Internet is not sufficient to save the patent under the machine prong of the machine-or-transformation test. It is a ubiquitous information-transmitting medium, not a novel machine. And adding a computer to otherwise conventional steps does not make an invention patent-eligible. Any transformation from the use of computers or the transfer of content between computers is merely what computers do and does not change the analysis.

The claims of the '545 patent also fail to satisfy the transformation prong of the machine-or-transformation test. The method as claimed refers to a transaction involving the grant of permission and viewing of an advertisement by the consumer, the grant of access by the content provider, and the exchange of money between the sponsor and the content provider. These manipulations of "public or private legal obligations or relationships, business risks, or other such abstractions cannot meet the test because they are not physical objects or substances, and they are not representative of physical objects or substances." We therefore hold that the claims of the '545 patent do not transform any article to a different state or thing. While this test is not conclusive, it is a further reason why claim 1 of the '545 patent does not contain anything more than conventional steps relating to using advertising as a currency. [W]e conclude that the district court did not err in holding that the '545 patent does not claim patent-eligible subject matter.