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The Expanding Breadth of Patent Ineligibility

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In *Ultramercial, Inc. v. Hulu, LLC*, the Federal Circuit affirmed the district court's dismissal of Ultramercial's lawsuit, finally agreeing with the district court that the patent on which Ultramercial based its suit claimed ineligible subject matter under 35 U.S.C. § 101. On two previous occasions the Federal Circuit had held the opposite. The Court's switch resulted from the intervening Supreme Court case *Alice Corp. v. CLS Bank International*, 134 S. Ct. 2347 (2014). The Federal Circuit's opinion as well as Judge Mayer's concurrence offer a roadmap for the court's current Section 101 jurisprudence.

The '545 Patent

The patent at issue, U.S. Patent No. 7,346,545, claimed a method of distributing products over the internet via a "facilitator" comprising a series of steps. Briefly, the steps involved receiving copyrighted media, selecting an ad, offering the media in exchange for watching the chosen ad, displaying the ad, allowing the consumer access to the media, and receiving payment from the sponsor of the ad. In other words, the '545 patent covered a computerized business method similar to those in other, relatively recent Section 101 cases.

The Federal Circuit Twice Reverses The District Court

The case's ping-pong like posture reveals not only how involved the Supreme Court has been with Section 101 over the past few years, but also, as a result of that involvement, how quickly Section 101 jurisprudence has developed during that time.

In 2011, Chief Judge Rader (writing for himself and Judges Lourie and O'Malley) overturned the district court's dismissal of Ultramercial's suit, concluding that the '545 patent claimed a "process" within the purview of Section 101. *See Ultramercial, LLC v. Hulu, LLC*, 657 F.3d 1323 (Fed. Cir. 2011). WildTangent requested review by the Supreme Court, which granted WildTangent's cert petition, vacated the Federal Circuit's decision, and remanded the case for further consideration in light of *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 132 S. Ct. 1289 (2012).

On remand, the same Federal Circuit panel of once again reversed the district court's grant of WildTangent's motion to dismiss. See *Ultramercial, LLC v. Hulu, LLC*, 722 F.3d 1335 (Fed. Cir. 2013). WildTangent again filed a petition for certiorari. While that petition was pending, the Supreme Court issued its *Alice* decision, affirming the Federal Circuit's judgment that method and system claims directed to a computer-implemented scheme for mitigating settlement risk by using a third-party intermediary were not patent-eligible under Section 101 because the claims "add nothing of substance to the underlying abstract idea." *Alice*, 134 S. Ct. at 2359-60. The Supreme Court particularly noted that a claim directed to an abstract idea does not satisfy Section 101 by "merely requir[ing] generic computer implementation." *Id.* at 2357.

Following *Alice*, the Supreme Court granted WildTangent's petition for a writ of certiorari, vacated the Federal Circuit's second decision, and remanded.

The Federal Circuit Reverses Course

On remand, the Federal Circuit affirmed the district court's grant of WildTangent's motion to dismiss. Judge

Lourie wrote the opinion for the panel. Judge Mayer (who was designated to replace Judge Rader following his retirement) penned a concurrence.

Judge Lourie began the court's analysis by noting that the Supreme Court in *Alice* identified a two-step approach to Section 101 claims. First, courts should "determine whether the claims at issue are directed to one of those patent-ineligible concepts." *Id.* at 2355 (citing *Mayo*, 132 S. Ct. at 1296–97). If the claims are directed to ineligible subject matter, then courts must ascertain whether the claims contain "an element or combination of elements that is 'sufficient to ensure that the patent in practice amounts to significantly more than a patent upon the [ineligible concept] itself.'" *Id.* (quoting *Mayo*, 132 S. Ct. at 1294 (alteration in original)).

Applying this two-part process to the '545 patent, the Federal Circuit concluded that the claims were patent-ineligible under step one because the claimed combination of steps recited no more than an abstract idea that lacked any particular concrete or tangible form.

Turning to step two, the court concluded that the recited steps merely "instruct the practitioner to implement the abstract idea with routine, conventional activity," slip op. at 11, and thus do not transform the abstract idea recited by the '545 patent claims into patent-eligible subject matter. Even under the machine-or-transformation test, the court held that the addition of "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." *Id.* at 13 (citing *Alice*, 134 S. Ct. at 2357).

Judge Mayer's Concurrence

Judge Mayer made three interesting points in concurring:

1) The Section 101 inquiry is a threshold question that must be addressed at the outset of litigation. Frontloading the 101 analysis will conserve judicial resources, limit meritless infringement suits, and protect the public since "[s]ubject matter eligibility challenges provide the most efficient and effective tool for clearing the patent thicket, weeding out those patents that stifle innovation and transgress the public domain." Slip op., concurrence at 5. Thus Judge Mayer argues that the district court was correct to dismiss Ultramercial's infringement suit on the pleadings.
2) Patents do not issue from the PTO with a presumption of eligibility because "the PTO has for many years applied an insufficiently rigorous subject matter eligibility standard." *Id.* at 6.
3) *Alice* sets out a technical arts test for patent eligibility. Briefly put, if claims "harness natural laws and scientific principles—those 'truth[s] about the natural world that ha[ve] always existed,'" *id.* at 9 (quoting *Alice*, 134 S. Ct. at 2356 (citations and internal quotation marks omitted)), then they must use those laws and principles "to solve seemingly intractable problems" to overcome ineligibility, *id.*

Conclusion

Until now, the Supreme Court has appeared to take a broader view of ineligible subject matter than the Federal Circuit. Having relented in the face of two Supreme Court remands, and having articulated a clear appreciation of the Supreme Court's guidance in *Mayo* and *Alice*, that may be changing and thus we can expect more deference to ineligibility findings by lower courts and, as a result, more Section 101 challenges by defendants in patent-infringement suits.

For more information on the matters discussed in this *Locke Lord QuickStudy*, please contact the authors:

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