Ultramercial LLC v. Hulu LLC

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The United States Court of Appeals for the Federal Circuit recently addressed the issue of whether a method of using advertising as a form of currency, to distribute copyrighted products over the internet, constituted patent-eligible subject matter. The court reversed the district court's dismissal for lack of subject matter eligibility and found the claimed invention fell within patent-eligible subject matter under 35 U.S.C. §101's definition of a "process."

Ultramercial, LLC and Ultramercial, Inc.'s (collectively, "Ultramercial") filed suit against Hulu, LLC ("Hulu"), YouTube, LLC ("YouTube"), and WildTangent, Inc. ("WildTangent"), in the United States District Court for the Central District of California. Ultramercial alleged infringement of its patent that claimed a method for distributing copyrighted products over the internet. The method allowed a consumer to freely obtain copyrighted products, such as songs, movies, and books, over the internet in exchange for viewing an advertisement. The copyrighted products were paid for by the advertiser. Hulu and YouTube were dismissed from the case, and WildTangent filed a motion to dismiss for failure to state a claim with patent-eligible subject matter. The district court dismissed Ultramercial's patent infringement claims, finding that Ultramercial's patent did not claim patent-eligible subject matter. Ultramercial appealed to the United States Court of Appeals, Federal Circuit.

The United States Court of Appeals, Federal Circuit, initially noted that the district court had dismissed Ultramercial's claims for failure to claim patent-eligible subject matter without formally construing the claims. The court recognized that it had "never set forth a bright line rule requiring district courts to construe claims before determining subject matter eligibility." Thus, the court held that claim construction may not always be necessary for 35 U.S.C. §101 analysis, and that this case did not require claim construction in light of the subject matter at issue.

The court then set forth the categories of subject matter eligible for patent protection under 35 U.S.C. §101:

> [w]hoever 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.

35 U.S.C. §101. The court noted that the language of §101 clarifies that the categories of patent-eligible subject matter are no more than a "course eligibility filter" (*quoting Research Corp. Techs., Inc. v. Microsoft Corp.*, 627 F.3d 859, 869 (Fed.Cir. 2010)), and that subject matter eligibility is "merely a threshold check." The court pointed out that there are only three categories of subject matter outside the eligibility constraints of §101: laws of nature; physical phenomena; and abstract ideas. The court further admitted that it, and the United States Supreme Court, have found it difficult to provide a precise definition for the patent-ineligible category of abstractness. While abstract ideas are patent ineligible, on the other hand, an application of an abstract idea may well be protected. Thus, the court gave "substantial weight to the statutory reluctance to list any new, non-obvious, and fully disclosed subject matter as beyond the reach of title 35."

Addressing Ultramercial's patent, the court found that it constituted a method of monetizing and distributing copyrighted products over the internet. Thus, as a method, Ultramercial's claims satisfied §101's definition of a "process" and fell within patent-eligible subject matter. The court determined that Ultramercial's patent did not simply claim an abstract idea, i.e. advertising can serve as currency, but actually disclosed a practical application for this concept. The court also found several factors significant, for instance, the invention involved an extensive computer interface and solved problems with prior art banner advertising by requiring consumers to view advertisements before granting access to any copyrighted products.

The court ultimately held that "the 'course eligibility filter' of §101 should not be used to invalidate patents based on concerns about vagueness, indefinite disclosure, or lack of enablement, as these infirmities are expressly addressed by §112." (*quoting Research Corp.*, 627 F.3d at. 869; *citing* 35 U.S.C. §112). Thus, the court determined that Ultramercial's claimed invention was not so "manifestly abstract as to override the statutory language of section 101," because it was an improvement to prior art technology and a practical application of the general concept of utilizing advertising as currency. (*quoting Research Corp.*, 627 F.3d at. 869). As a result, the court reversed the district court's dismissal of Ultramercial's patent claims for lack of subject matter eligibility and remanded for further proceedings.