

Avoiding the Litigation Rabbit Hole: Federal Circuit Endorses Pre-Answer § 101 Challenges
(*Ultramercial, Inc. v. Hulu, LLC*, Case No. 2010-1544 (Fed. Cir. Nov. 14, 2014))

Kenneth R. Adamo, Brent P. Ray, Eugene Goryunov, and Greg Polins¹

On November 14, 2014, the Court of Appeals for the Federal Circuit affirmed a U.S. district court's conclusion that a patent owned by Ultramercial, LLC and Ultramercial, Inc. ("Ultramercial") was not directed to patent-eligible subject matter under § 101.

I. Procedural Background

Ultramercial owns U.S. Patent No. 7,346,545 ("the '545 patent"). The claims of the '545 generally relate to offering free media over the Internet in exchange for watching advertisements. Ultramercial sued a number of companies for allegedly infringing the '545 patent, including WildTangent, Inc. Rather than file an answer, WildTangent moved to dismiss the complaint under Federal Rule of Civil Procedure 12(b)(6), arguing that the '545 patent did not claim patent-eligible subject matter. The district court for the Central District of California agreed, finding the abstract idea at the heart of the '545 patent was "that one can use [an] advertisement as an exchange or currency." The district court granted WildTangent's **pre-answer** motion to dismiss **without construing the claims** of the '545 patent. Ultramercial appealed.²

The Federal Circuit disagreed with the district court, finding the '545 patent covered a patent-eligible process, and reversed. WildTangent filed a petition for a *writ of certiorari* requesting review by the Supreme Court. The Court granted the petition, vacated the Federal Circuit's decision, and remanded the case for consideration in view of *Mayo Collaborative Serv. v. Prometheus Lab., Inc.* The Federal Circuit again found the claims eligible on remand. WildTangent filed

another petition for a *writ of certiorari* requesting review of the Federal Circuit's second decision. The Court granted the second petition, vacated the Federal Circuit's decision, and remanded the case for consideration in light of *Alice Corp. v. CLS Bank Int'l*.³

On remand for the third time, the Federal Circuit found the claims of the '545 patent covered a patent-ineligible abstract idea, and affirmed the district court's decision.⁴

II. Third Time is the Charm - Court's Decision

The Federal Circuit began its analysis under the *Alice/Mayo* framework by finding that the claimed invention fit within one of the four statutorily categories of patent-eligible subject matter: a process, a machine, a manufacture, or a composition of matter.⁵ The Court proceeded to determine whether the claims fell within one of the "implicit exceptions" of § 101: laws of nature, natural phenomena, and abstract ideas. This analysis was recently refined into the two-step inquiry of the *Alice/Mayo* framework:

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 in practice amounts to significantly more than a patent upon the [ineligible concept] itself.'"⁶

Under the first step of the *Alice/Mayo* framework, the Federal Circuit reviewed the steps of claims, without purporting to construe any claim terms (like the district court). The Federal Circuit agreed with the district court that the claims were directed to the abstract idea of using “an advertisement as an exchange or currency” performed using steps “devoid of a concrete or tangible application.”⁷ Demonstrating the continued sensitivity and debate surrounding the patentability of claims implemented in software, the Federal Circuit also cautioned that its decision should not be taken to hold that all claims in all software-based patents will necessarily be directed to an abstract idea. “Future cases may turn out differently.”⁸

Under the second step of the *Alice/Mayo* framework, the Federal Circuit concluded the various additional steps recited in the claims were not enough to save the patent:

- it is not enough to draft claims that “simply instruct the practitioner to implement the abstract idea with routine, conventional activity”⁹;
- “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”¹⁰; and
- the “claims’ invocation of the Internet . . . adds no inventive concept” because “the use of the Internet is not sufficient to save otherwise abstract claims from ineligibility under § 101”¹¹.

That some of the steps “were not previously employed in this art is not enough—standing alone—to confer patent eligibility upon the claims at issue.”¹² The Federal Circuit found that an abstract idea may be new, not previously well known, and not routine is still not patent-eligible.¹³

The Federal Circuit also analyzed the claims under the machine-or-transformation test, a “useful clue” in evaluating the second step of the *Alice/Mayo* framework. Applying the test, the Federal Circuit concluded the claims were not tied to any particular novel machine or apparatus. Use of the Internet “is not sufficient to save the patent under the machine prong” because “[i]t is a ubiquitous information-transmitting medium, not a novel machine.” The claims also failed the transformation prong because manipulation of money is “not representative of physical objects or substances” and “do not transform any article to a different state or thing.”¹⁴

III. Judge Mayer’s Concurrence

Judge Mayer agreed with the panel the Ultramercial claims were not patent-eligible but wrote a concurring opinion to emphasize three points.

First, Judge Mayer argued that § 101 “determination bears some of the hallmarks of a jurisdictional inquiry.” In his view, “whether claims meet the demands of 35 U.S.C. § 101 is a threshold question, one that must be addressed at the outset of litigation.”¹⁵ If the claimed subject matter is not patent-eligible, Judge Mayer would conclude that “any determination on validity or infringement constitutes an impermissible advisory opinion.” Judge Mayer also noted the additional benefits that occur from addressing patent-eligibility at the outset of a case, including “provid[ing] a bulwark against vexatious infringement suits,” avoiding the “staggering costs associated with discovery, *Markman* hearings, and trial,” and satisfying the public interest in eliminating defective patents.¹⁶

Second, Judge Mayer argued that “no presumption of eligibility attends the section 101 inquiry.”¹⁷ In his view, which the presumption of validity attaches in many contexts, “no equivalent presumption of eligibility applies in the section 101

calculus.” Judge Mayer argued the PTO had applied an “insufficiently rigorous subject matter eligibility standard” for many years, and therefore the rationale for presuming eligibility was “much diminished.”¹⁸

Third, Judge Mayer contended the *Alice/Mayo* framework articulates a “technological arts test for patent eligibility” that was inapplicable to the *Ultramercial* claims because the inventive concept was “an entrepreneurial [one] rather than a technological one”¹⁹ In his view, all claims “directed to an entrepreneurial objective” are impermissibly abstract.²⁰ Thus, all advances in non-technological disciplines such as business, law, or the

social sciences “simply do not count” as patent eligible.

This case suggests that the Federal Circuit is now “in sync” with the Supreme Court’s guidance on patent-eligibility. It remains to be seen how district courts will view and apply this guidance. Considering the Federal Circuit’s endorsement of challenging patent eligibility without claim construction in *Ultramercial*, practitioners can expect to see an increase in the number of early § 101 challenges. Practitioners will be well-served by monitoring continued developments in this area, and we will do the same.

¹ This article reflects only the present considerations and views of the authors, which should not be attributed to Kirkland & Ellis LLP, or to any of its or their former or present clients.

² Slip op. at 5.

³ *Id.* at 6.

⁴ *Id.* at 13–14.

⁵ *Id.* at 7 (citing 35 U.S.C. § 101).

⁶ *Id.* at 7–8.

⁷ *Id.* at 9.

⁸ *Id.* at 10.

⁹ *Id.* at 11.

¹⁰ *Id.*

¹¹ *Id.*

¹² *Id.* at 12.

¹³ *Id.* at 8.

¹⁴ *Id.* at 13.

¹⁵ Slip. op. at 1 (Mayer, J., concurring).

¹⁶ *Id.* at 3–5.

¹⁷ *Id.* at 1.

¹⁸ *Id.* at 7.

¹⁹ *Id.* at 1.

²⁰ *Id.* at 9.