Ultramercial, Inc. v. Hulu, LLC 722 F.3d 1335 (Fed. Cir. 2013)

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BACKGROUND

Plaintiffs Ultramercial, LLC and Ultramercial, Inc. (collectively "Ultramercial") appeal the district court's dismissal of a patent infringement claim against Defendant WildTangent, Inc. ("WildTangent")[1] for failure to state a claim. The district court found that the subject matter of the allegedly infringed patent was not eligible for protection under 35 U.S.C. § 101.

Ultramercial owns U.S. Patent Number 7,346,545 (the "'545 patent"),[2] which describes an eleven-step process for monetizing the distribution of copyrighted media products, such as songs, movies, and books, over the Internet. In the first step of the process, the facilitator receives copyrighted material from the content provider. Second, the facilitator selects an advertisement to be associated with the copyrighted media. Third, the facilitator provides the media product for sale via a website. Fourth, the facilitator restricts general access to the media product. Fifth, the facilitator offers the media product for free on the precondition that the consumer watch the selected advertisement. Sixth, the facilitator receives the consumer's acknowledgment to view the advertisement. Seventh, the facilitator displays the advertisement to the consumer. Eighth, if the advertisement is not interactive, the facilitator allows the consumer to access the media product. If the advertisement is interactive, a ninth step allows access to the copyrighted material only after receiving a consumer response to at least one query. The tenth step records the transaction, and the eleventh step involves receiving payment from the advertiser.

Ultramercial sued WildTangent for infringement of the patented procedure. The district court dismissed the case against WildTangent, holding that there was no reasonable construction that would bring the described process within the meaning of patentable subject matter. Ultramercial appealed.

ISSUES

On appeal, the Federal Circuit was asked to decide whether the district court applied the proper standard for a Federal Rule of Civil Procedure

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1. Hulu, Inc. and YouTube, LLC were initially named in the complaint but were subsequently dismissed.

2. U.S. Patent No. 7,346,545 (filed May 29, 2001).

12(b)(6) motion to dismiss when considering a § 101 subject matter claim at the pleading stage. The court first acknowledged that the expansive statutory definition of a patentable "process" was in tension with the narrow "abstract idea" exception to § 101 subject matter eligibility. With this tension in mind, the court shifted its focus to determine whether the '545 patent simply involved a patentable abstract concept, or if it was the patentable application of an abstract idea.

Lastly, the court evaluated the software programming essential to the eleven-step process to determine whether it was undeserving of patent protection as abstract subject matter or whether the process failed to satisfy the "particular machine requirement."

DECISION

The Federal Circuit determined that the district court erred by requiring the patentee to illustrate that the claims were patentable. Instead, the court held, the defendant has the burden of establishing through clear and convincing evidence that the patent consists of an unpatentable abstract idea. The court further reversed the district court's holding that the '545 patent contained no patentable material. The court opined that the eleven-step process required to effectuate the transmission of copyrighted material in exchange for consumer interaction with advertising material is a sufficiently specific application of an abstract idea to a particular computer-based method of monetizing copyrighted content on the Internet.

Lastly, the court concluded Ultramercial's software setup did satisfy the "particular machine requirement" since software improvements are enhancements that turn a "general purpose computer" into a "special purpose computer."

REASONING

In overturning the district court's decision, the Federal Circuit court shifted the burden of proof to the allegedly infringing defendant claiming patent invalidity as a defense in a motion for summary judgment. The court highlighted the notion that patents are presumed to have been properly issued. Additionally, the court noted, if a defendant uses Rule 12(b)(6) as a defense, dismissal of the case is only appropriate when the factual allegations in the complaint, construed in the light most favorable to the plaintiff, are sufficient to establish a defense. Therefore, WildTangent would have needed to prove that the '545 patent did not fit within the subject matter requirements of § 101 by clear and convincing evidence for the court to properly dismiss the complaint. The court stated that Rule 12(b)(6) "requires courts to accept the well-pleaded factual allegations as true and to require the accused infringer to establish that the only plausible reading of the claims is that, by clear and convincing evidence, they cover

ineligible subject matter."[3]

Additionally, the court opined, "[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 . . . ."[4] The court then noted that legislative history and congressional intent suggest that § 101's use of "any" and "process" is to be interpreted in a broad manner. Such an expansive interpretation subsumes abstract ideas as processes.

The inclusion of abstract ideas, however, is not without limitation. Abstract ideas, in and of themselves, are not patentable, but the *application* of abstract ideas may be patentable. The determination as to whether a concept is simply an idea or an application of an idea hinges on whether there is a meaningful tie between the abstract idea and a specific application of the idea such that the specific application is not likely to preempt all other applications of the abstract idea. "It is not the breadth or the narrowness of the abstract idea that is relevant, but whether the claim covers every practical application of that abstract idea."[5]

The court stated that the '545 patent has a meaningful tie to a specific application. The '545 patent illustrates the application of the abstract idea of advertising as a form of currency. The eleven-step process was determined to be a specific application, utilizing a network of interconnected computers to achieve its goals. Further, the court found that the '545 patent does not preempt all other uses of the idea described in the claims. This is because the patent does not include broad Internet advertising terms, but rather lays out a very specific methodology in order to achieve its results.

Lastly, the court considered WildTangent's argument that software programming essential to the functioning of an invention, like that described in the '545 patent, does not deserve patent protection or constitutes unpatentable abstract subject material. The court concluded that this argument also failed.

In *In re Alappat*, the Federal Circuit determined that software programming creates a "new machine" by turning a general purpose computer into "a special purpose computer once it is programmed to perform particular functions pursuant to instructions from program software."[6] Thus, software programming can constitute a "new machine" capable of obtaining patent protection by facilitating a unique function. Further, the court stated, software advances utilizing programmed computers are "far from abstract."[7] Since both the Federal Circuit, in previous decisions, and the U.S. Patent & Trademark Office have historically allowed for improvements of the type described in the '545

3. Ultramercial, Inc. v. Hulu, LLC, 722 F.3d 1335, 1339 (Fed. Cir. 2013).
4. *Id.* at 1340 (citing 35 U.S.C. § 101 (2012)) (emphasis in original).
5. *Ultramercial*, 722 F.3d at 1346.
6. *Id.* at 1348 (quoting *In re* Alappat, 33 F.3d 1526, 1544 (Fed. Cir. 1994)).
7. *Id.* at 1352.

claims to be patented, the practical application of abstract ideas of advertising improving upon the prior art's application of the idea was found to not be so abstract as to remain unpatentable. The court reversed the district court's dismissal of the complaint and remanded the case for further proceedings.