

In the
Supreme Court of the United States

WILDTANGENT, INC.,

Petitioner,

v.

ULTRAMERCIAL, LLC AND ULTRAMERCIAL, INC.,

Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS FOR THE
FEDERAL CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

When is a patent's reference to a computer, or computer-implemented service like the Internet, sufficient to make an unpatentable abstract concept patent eligible under 35 U.S.C. § 101?

RULE 29.6 STATEMENT

WildTangent, Inc. has no parent company and no publicly held company owns 10% or more of its stock.

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PETITION FOR A WRIT OF CERTIORARI

Petitioner, WildTangent, Inc. (WildTangent) respectfully petitions this Court for a writ of certiorari to review the judgment of the Court of Appeals for the Federal Circuit in this case.

OPINIONS BELOW

This Court's order granting certiorari, vacating the judgment, and remanding in light of *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 132 S. Ct. 1289 (2012), is reported at 132 S. Ct. 2431 (App. 68a). The opinion of the court of appeals following remand (App. 1a-39a) is available at 2013 U.S. App. LEXIS 12715. The court of appeals' original opinion (App. 40a-53a) is reported at 657 F.3d 1323. The opinion of the district court (App. 54a-67a) is available at 2010 U.S. Dist. LEXIS 93453.

JURISDICTION

The court of appeals entered its judgment following this Court's remand on June 21, 2013. App. 1a. This Court has jurisdiction pursuant to 28 U.S.C. § 1254(1).

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

Article I, Section 8 of the United States Constitution and 35 U.S.C. §§ 100(b) and 101 are reprinted in the appendix hereto. App. 73a-75a.

INTRODUCTION

Twice in recent terms, this Court has had to review and set aside the Federal Circuit's decisions about the scope of patent-eligible subject matter under 35 U.S.C.

§ 101, after concluding that the Federal Circuit failed to heed the Supreme Court’s guidance on this issue. Both cases involved situations where the Court had asked the Federal Circuit to reconsider its decision in light of this Court’s intervening decisions calling for a more rigorous analysis under § 101, and both times the Federal Circuit adhered to its prior ruling—necessitating this Court’s plenary review. *See Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289 (2012); *Association for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S. Ct. 2107 (2013); *see also Bilski v. Kappos*, 130 S. Ct. 3218 (2010) (affirming judgment, but rejecting Federal Circuit’s § 101 test).¹

This case fits the same pattern. At issue is the eligibility under § 101 of a patent that seeks a monopoly over an indisputably abstract idea—using advertising as currency—over the Internet. After the Federal Circuit initially held that the patent at issue was eligible under § 101, this Court granted WildTangent’s petition for certiorari, vacated the judgment, and remanded for reconsideration in light of *Mayo*. App. 68a. In *Mayo*, this Court unanimously directed the Federal Circuit to apply the § 101 inquiry with *more* rigor. On remand in this case, however, the

¹ Members of the Federal Circuit have themselves recognized this trend. *See CLS Bank Int’l v. Alice Corp. Pty. Ltd.*, 717 F.3d 1269 (Fed. Cir. 2013) (en banc) (Moore, J., dissenting in part) (“The Supreme Court has taken a number of our recent decisions and, in each instance, concluded that the claims at issue were not patent-eligible.” (citing *Bilski*, *Mayo*, *Myriad*)); *CLS Bank Int’l v. Alice Corp. Pty. Ltd.*, 685 F.3d 1341, 1356 (Fed. Cir. 2012) (Prost, J., dissenting) (“Just a few months ago, the Supreme Court reversed us in a § 101 case for a second time in the last three terms, hinting (not so tacitly) that our subject matter patentability test is not sufficiently exacting.” (citing *Mayo* and *Bilski*)).

Federal Circuit not only reached the same result as it did before *Mayo*, but did so in a decision that goes even further than its initial decision in dismantling § 101 as a meaningful screening device. Indeed, although he agreed with the bottom-line result, one Judge on the panel below took the unusual step of writing separately to explain his belief that the Federal Circuit “should concisely and faithfully follow” *Mayo* rather than “set[ting] forth [its] own independent views, however valid [it] considers them to be.” *Id.* at 36a-37a.

The decision in this case is particularly problematic because it seeks to fill the void left in the wake of the Federal Circuit’s failed en banc hearing in *CLS Bank International v. Alice Corp. Pty. Ltd.*, which produced multiple conflicting opinions on the patent eligibility of computer-implemented claims but no majority rationale. 717 F.3d 1269 (Fed. Cir. 2013). The decision in this case is written in sweeping doctrinal terms that sharply conflict not only with this Court’s precedents but with the Federal Circuit’s prior decisions. Here, the Federal Circuit frankly recognized that the “idea that advertising can be used as a form of currency”—“is abstract,” just like the unpatentable abstract idea in *Bilski*. App. 28a. But the court held that the “broadly claimed” method at issue satisfied § 101 as a patentable-eligible *application* of that abstract concept because it “invokes computers and application of computer technology” and “involves an extensive computer interface.” *Id.* at 35a, 29a, 33a. Yet the patent itself does not reference any “computer interface,” much less specify computer programming. Instead, it merely claims a method in which one step is conducted “at an Internet website.” *Id.* at 2a.

The Federal Circuit's decision in this case establishes a virtually insurmountable rule that computer-related method claims are patent eligible. That result and the Federal Circuit's new § 101 framework directly conflict with this Court's decision in *Mayo* and other precedents. The decision in this case completely revamps the law in this area and transforms § 101 into little more than a statutory preordination of patent eligibility. The decision also exacerbates the untenable conflict and confusion in the Federal Circuit on the application of § 101 to computer-related patents. The Federal Circuit is hopelessly divided, and the Court should not permit this extreme decision to set the ground rules for § 101 going forward. Moreover, the patent eligibility of computer-related methods is undeniably important and impacts an increasingly important sector of the Nation's economy. This Court's review is urgently needed.

STATEMENT OF THE CASE

A. The Patent Act

Section 101 of the Patent Act establishes the gateway subject-matter eligibility requirement for all patents. It provides that “[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 Act further states that “‘process’ means process, art or method, and includes a new use of a known process, machine, manufacture, composition of matter, or material.” *Id.* § 100(b).

This Court has “long held” that § 101 “contains an important implicit exception[:] Laws of nature, natural

phenomena, and abstract ideas are not patentable.” *Myriad*, 133 S. Ct. at 2116 (quoting *Mayo*, 132 S. Ct. at 1293) (alteration in original). These are “the basic tools of scientific and technological work,” *id.*, and accordingly they are “part of the storehouse of knowledge of all men . . . free to all men and reserved exclusively to none.” *Bilski*, 130 S. Ct. at 3225 (alteration in original) (citation omitted). These exceptions “have defined the reach of the statute as a matter of statutory *stare decisis* going back 150 years.” *Id.* And Congress—which is well aware of this Court’s decisions—has not sought to curtail the exceptions.

B. Underlying Facts

Advertising is as old as markets. And purveyors of goods or services have long understood that those seeking access to copyrighted content are excellent subjects for advertising. That is why broadcasters decided almost as soon as television signals hit the airways to imbed advertisements in their programming—effectively forcing viewers, especially before the advent of recording devices, to watch commercials to view programming. The patent at issue claims that basic economic concept in the context of one of the most significant economic developments in history—the Internet and e-commerce marketplace.

WildTangent operates a games service that allows consumers around the world to access downloadable, online, and social games via the Internet. Rather than paying to play, consumers can let an advertiser sponsor free game play sessions. To do so, the consumer must agree to display an advertisement before he is given access to the game. As most users of the Internet have experienced, numerous websites likewise restrict access to content by prompting users to view

advertisements before gaining access to the desired content. Navigating such advertisements can be the bane of using the Internet but—just like TV commercials—such advertisements have become a basic economic staple in the e-commerce environment.

The patent-in-suit, U.S. Patent No. 7,346,545 (the '545 patent), issued March 18, 2008, and assigned to respondent Ultramercial, claims exclusivity on the basic economic concept of trading advertisement viewing for access to content—over the Internet. *See* Fed. Cir. JA 473-82. The preamble to claim 1 describes it as a “method for distribution of products over the Internet.” '545 patent col. 8 ll.1-5 (Fed. Cir. JA 481); *see also* App. 2a. It lists eleven basic steps that relate to receiving the content, selecting an advertisement, and restricting access to the content based on advertisement viewing. App. 2a-3a. Step three states that the content should be offered “for sale at an Internet website.” '545 patent col. 8 ll.20-21 (Fed. Cir. JA 481); *see also* App. 2a. Claim 8, the only other independent claim, similarly requires listing products “on an Internet website.” *Id.* col. 9 ll.3-4 (Fed. Cir. JA 482). It is undisputed that the patent does not specify any computer programming. *See* App. 29a.²

² As the district court explained, the eleven steps are:

- 1) receiving media from content provider,
- 2) selecting an ad after consulting an activity log to determine how many times the ad has been played and how many more times it need be played,
- 3) offering media products on the Internet,
- 4) restricting general public access to the media,
- 5) offering various media to customers for free in exchange for their watching the selected ad,
- 6) receiving a request to view the media from the Internet user,
- 7) facilitating the display of the ad,
- 8) allowing the Internet user access to the media,
- 9) same as 8 but for interactive media,

C. District Court Litigation

In September 2009, Ultramercial filed suit in the Central District of California, asserting that WildTangent—along with Hulu, LLC, and YouTube, LLC, which were later dismissed, *id.* at 4a—had infringed its '545 patent by limiting access to content on the popular Internet websites that defendants operate based on advertisement viewing. WildTangent and the other defendants moved to dismiss under Rule 12(b)(6) on the ground that the '545 patent does not claim patent-eligible subject matter under § 101.

In August 2010, after receiving briefing on *Bilski*, the district court granted the motion, holding that the patent claimed an abstract idea. App. 57a-58a. The Court explained that “the concept of advertisement-media-exchange does not become patentable simply because the patentee claims to have limited its application to the Internet or computers.” *Id.* at 58a-65a (citing *Gottschalk v. Benson*, 409 U.S. 63, 64 (1972)). Indeed, the court recognized, a contrary rule would render “completely toothless” (*id.* at 63a) the machine-or-transformation test that this Court reaffirmed in *Bilski* is “a useful and important clue” for determining patent eligibility. 130 S. Ct. at 3227. The court then concluded that this case is “very similar” to *Bilski* because the “core of the '545 patent is the basic idea that one can use advertisement as an exchange or currency,” which is abstract, and the “added features, examples, or limitations of the '545 patent do not make it patentable” because they do not “limit the patent in a

10) recording the transaction in the activity log, and
11) receiving payment from sponsor for the ad.
App. 55a; *see also id.* at 29a (recognizing steps).

meaningful way.” App. 66a. Instead, the court held, the patent here, like the one in *Bilski*, “discloses an abstract idea garnished with accessories.” *Id.*

D. Federal Circuit’s Initial Decision

In September 2011, the Federal Circuit reversed. In a broadly worded opinion, the court dispensed with the machine-or-transformation test for determining patent eligibility as having “far less application to the inventions of the Information Age.” *Id.* at 46a. The court then applied a new and heightened standard for abstractness formulated by the Federal Circuit and effectively supplanted § 101’s gateway screening role with the other statutory grounds for invalidity (§§ 102, 103, 112). The court held that “this disqualifying characteristic should exhibit itself *so manifestly* as to override the broad statutory categories of eligible subject matter and the statutory context that directs primary attention on the patentability criteria of the rest of the Patent Act.” *Id.* at 47a (quoting *Research Corp. Techs., Inc. v. Microsoft Corp.*, 627 F.3d 859, 868 (Fed. Cir. 2010) (emphasis added)).

Applying that understanding, the Federal Circuit recognized that the “idea that advertising can be used as a form of currency is abstract, just as the vague, unapplied concept of hedging proved patent-ineligible in *Bilski*.” *Id.* at 51a. But the court reasoned that the ’545 patent discloses a patentable “practical application” of this idea on the ground that its steps—which do not spell out any computer programming but instead simply refer in passing to “an Internet website”—are “*likely* to require intricate and complex computer programming” and “clearly require specific application to the Internet and a cyber-market environment.” *Id.* at 51a (emphasis added).

E. This Court’s GVR Order

In May 2012—shortly after this Court decided *Mayo*—the Court granted WildTangent’s petition for certiorari, vacated the judgment, and remanded the case for further consideration in light of *Mayo*. App. 68a. In *Mayo*, the Court unanimously held that certain medical diagnostic methods were not patent eligible because they “add nothing specific to the laws of nature other than what is well-understood, routine, conventional activity, previously engaged in by those in the field.” 132 S. Ct. at 1299. In the course of its decision, the Court undertook a broad-based review of its precedents in this area and reaffirmed that “simply implementing a mathematical principle on a physical machine, namely a computer, [i]s not a patentable application of that principle.” *Id.* at 1301 (citing *Benson*). The Court also rejected an approach that would “substitute §§ 102, 103, and 112 inquiries for the better established inquiry under § 101” because that would “make the ‘law of nature’ exception to § 101 patentability a dead letter.” *Id.* at 1303-04.

F. En Banc Decision In *CLS Bank*

In October 2012—after this Court had GVR’d this case—the Federal Circuit vacated the panel decision in *CLS Bank International v. Alice Corp. Pty. Ltd.*, finding the computer-related claims at issue in that case patent eligible under § 101 and agreed to hear the case en banc. 484 F. App’x 559 (Fed. Cir. 2012). The claims in *CLS Bank* cover the abstract concept of using a computerized trading platform for reducing “settlement risk.” Although the claims are computer-implemented and broken into several steps (including using a “supervisory institution” and adjusted “shadow debit records”), and although the specification refers to

“a system called ‘INVENTICO’” and a “CONTRACT APP,” *CLS Bank Int’l v. Alice Corp. Pty. Ltd.*, 685 F.3d 1341, 1343, 1354 (Fed. Cir. 2012), the claims require the use of a computer in only a generalized way. *CLS Bank* also included additional claims drawn to systems and computer-readable medium, though the declaratory judgment plaintiff CLS Bank had argued that the eligibility of these claims under § 101 was tied to the eligibility of the method claims. *Id.* at 1343-44.

In May 2013, the en banc court issued a per curiam opinion and judgment in *CLS Bank* announcing that a majority of the court (seven of the ten members) had affirmed the district court’s holding that the method claims and computer-readable media claims are not eligible under § 101, and that an equally divided court had affirmed the district court’s holding that the asserted system claims are not eligible under § 101 either. In addition, a majority of the court (eight members) concluded that the method, medium, and system claims “should rise or fall together in the § 101 analysis.” *CLS Bank*, 717 F.3d at 1274 n.1 (Lourie, J., concurring). However, a majority of the court was unable to agree on a single rationale producing that result and the per curiam opinion was accompanied by five separate non-majority opinions setting out competing views of the proper analysis under § 101.³

G. Federal Circuit’s Decision On Remand

In June 2013—not long after the en banc court issued its judgment in *CLS Bank* and without

³ On July 18, 2013, the losing patent holder in *CLS Bank* indicated its intention to seek certiorari and requested an extension of time to file a petition to September 6, 2013, which was granted. *Alice Corp. Pty. Ltd. v. CLS Bank Int’l*, No. 13A95.

requesting any additional briefing or oral argument on this Court’s GVR order—the panel in this case acted to fill the doctrinal void left by the splintered decision in *CLS Bank* by issuing a strongly worded decision reaffirming the court’s initial decision finding that the claims were patent eligible under § 101 and mapping out a sweeping set of guidelines for analyzing the eligibility of computer-implemented patents under § 101. As a practical matter, the only substantive change to the court’s § 101 analysis in light of *Mayo* compared to its initial analysis of the claims before *Mayo* was the creation of *additional* barriers to showing abstractness under the new decision.

The court framed the issue with a heavy thumb—if not truck—on the scale for patent eligibility, emphasizing that it will be “rare” and is “normally” “improper” to dismiss a patent infringement suit on § 101 grounds, that claim construction “normally will be required,” and that a party must demonstrate abstractness by clear and convincing evidence. App. 4a-8a. The court relegated § 101 to a “limited role” that is “merely a threshold check” and “no more than a ‘coarse eligibility filter.’” *Id.* at 8a-10a (citation omitted). Instead, the court viewed the “substantive conditions of eligibility”—§ 102 (novelty), § 103 (obviousness), § 112 (adequate disclosure)—as doing the work of weeding out meritless claims. *Id.* The court downplayed the longstanding exceptions to §101 and asserted that they “should apply narrowly” and “must be rare.” *Id.* at 12a. The court again dismissed the machine-or-transformation test as having “far less application” to technological patents. *Id.* at 14a.

The court discussed this Court’s cases interpreting the abstract idea exception, including *Mayo*, *Bilski*,

and *Benson*, *id.* at 15a-25a, and concluded its discussion by proclaiming various “guideposts specific to computer-implemented inventions,” *id.* at 25a. Among other things, the court ruled that “the fact that a claim is limited by a tie to a computer is an *important indication* of patent eligibility,” and that “inventions with specific applications or improvements to technologies in the marketplace are not likely to be so abstract that they override the statutory language and framework of the Patent Act.” *Id.* at 25a-27a (emphasis added) (quoting *Research Corp.*).

In analyzing the claims under that framework, the court recognized that it is undisputed that the “idea that advertising can be used as a form of currency is abstract,” similar to the concept of hedging that was patent ineligible in *Bilski*. *Id.* at 28a. But the court found that the patent claims an eligible application of that concept because it “invokes computers and applications of computer technology.” *Id.* at 29a-30a. The court explained that it could “see” that the patent’s steps “require intricate and complex computer programming,” *id.*—even though the patent does not disclose any such programming. Focusing on two figures in the specification—rather than the claim language—the court concluded that the patent “involves an extensive computer interface,” making it patent eligible. *Id.* at 30a-33a. The court added the caveat that it did “not define the level of programming complexity required before a computer implemented method can be patent-eligible,” even though it had not identified any programming in the patent. *Id.* at 33a. The court disavowed holding that “use of an Internet website to practice such a method is . . . sufficient in

every case to satisfy § 101,” but the court did not identify anything else that set this patent apart. *Id.*

Finally, the court asserted that the claims “are not highly generalized,” despite recognizing in the very next paragraph that the “broadly claimed method” at issue “does not specify a particular mechanism for delivering media content to the consumer.” *Id.* at 34a-35a. In reaching this conclusion, the court again substituted § 112’s written description requirement to do the work of § 101. *Id.* at 35a-36a. Ultimately, the court concluded that “the claimed invention is not ‘so manifestly abstract as to override the statutory language of section 101.’” *Id.* at 36a (emphasis added) (quoting *Research Corp.*).

Judge Lourie concurred in the decision, but wrote separately because he believed the court did not “concisely and faithfully” follow *Mayo*. *Id.* at 36a-37a. He stated: “It is our obligation to attempt to follow the Supreme Court’s guidance in *Mayo* rather than to set forth our own independent views, however valid we may consider them to be.” *Id.* at 37a. He agreed with the majority’s conclusion that the claims are patent eligible but disagreed with its reasoning, explaining that “[w]hile a computer or complex computer program, as discussed by the majority opinion, may be necessary to perform the method, it is not what the claim specifically requires and thus should not be the focus of the analysis.” *Id.* at 38a-39a. Instead, he simply asserted without explanation that the “added limitations in these claims represent significantly more than the underlying abstract idea of using advertising as an exchange or currency.” *Id.* at 39a.

REASONS FOR GRANTING THE PETITION

In few cases is the need for this Court's intervention so apparent. The proper application of § 101's gateway subject-matter eligibility requirement to computer-implemented patent claims is a matter of extraordinary importance—and is becoming more important virtually by the day as the number of computer-implemented method patents explodes. The sweeping decision below not only largely disregards this Court's GVR order but sharply conflicts with this Court's precedents. The Federal Circuit, as its recent en banc experiment in *CLS Bank* underscores, is hopelessly divided on the question presented. And whereas the Federal Circuit's free-for-all in *CLS Bank* establishes no law beyond its judgment, the decision in this case fills the vacuum left by *CLS Bank* with a sweeping legal framework that eliminates § 101 as a meaningful screening mechanism for computer-implemented claims. Certiorari is warranted.

I. THE FEDERAL CIRCUIT'S DECISION IS FUNDAMENTALLY OUT OF STEP WITH THIS COURT'S PRECEDENTS

As one Federal Circuit Judge has observed, in *Mayo* and other recent decisions, this Court has “hint[ed] (not so tacitly) that [the Federal Circuit's] subject matter patentability test is not sufficiently exacting.” *CLS Bank*, 685 F.3d at 1356 (Prost, J., dissenting). In this case, the Court asked the Federal Circuit to reconsider its initial decision in light of *Mayo*. But rather than heed the guidance in *Mayo*, the Federal Circuit used the occasion to pronounce its “independent views” on § 101. App. 36a-37a (Lourie, J., concurring). The Federal Circuit's “independent

views” on the proper role of § 101 and how it applies to computer-implemented methods directly conflict with *Mayo* and this Court’s other precedents. Instead of treating § 101 as a meaningful screening mechanism to weed out ineligible subject matter, the Federal Circuit diminished § 101’s role so that virtually anything that qualifies as a “process” will pass muster. To make matters worse, in direct conflict with *Mayo*, *Bilski*, and *Benson*, the Federal Circuit in this case has erected a legal framework that effectively gives computer-implemented methods a “free pass” through § 101.

A. The Federal Circuit’s Conception Of The Role Of § 101 Is Sharply At Odds With This Court’s Precedents

The Federal Circuit’s decision in this case revamps the § 101 inquiry established by this Court and all but eliminates § 101 as a genuine screening tool.

1. In stark contrast with the robust role reaffirmed in *Mayo*, the Federal Circuit below held that § 101 has only a “limited role” and is “no more than a ‘coarse eligibility filter.’” App. 9a-10a (citation omitted); *see also id.* at 6a (“‘coarse’ gauge” (citation omitted)). The court asserted that “[b]road inclusivity is the congressional goal of § 101” and the “broadly permissive nature” of § 101 is limited only by “narrow judicial” exceptions that “should apply narrowly” and “must be rare.” *Id.* at 10a-12a. According to the court, instead of § 101, the “substantive criteria for patentability”—§§ 102, 103, and 112—do the real work in screening claims. *Id.* at 10a. And the court explicitly substituted § 112 for § 101: “[t]he ‘coarse eligibility filter’ of § 101 is not the statutory tool to address concerns about vagueness, indefinite disclosure, or lack of enablement, as these infirmities are expressly

addressed by § 112.” *Id.* at 35a. In other words, while the court purportedly grounded its decision in the statute, the court effectively re-wrote the statute.

This Court emphatically rejected that conception of § 101 in *Mayo*. Indeed, in *Mayo*, the Court issued a “unanimous directive to apply the patentable subject matter test with more vigor.” *CLS Bank*, 685 F.3d at 1356 (Prost, J., dissenting). Among other things, *Mayo* reaffirms that the exceptions to § 101 recognized by this Court are central to the § 101 analysis. In *Mayo*, the Court stressed that it has “long held” that § 101 “contains an *important* implicit exception” that “[l]aws of nature, natural phenomena, and abstract ideas’ are not patentable.” 132 S. Ct. at 1293 (emphasis added); *see also Myriad*, 133 S. Ct. at 2116 (same). Far from insignificant, these exceptions—the Court emphasized—“have *defined* the reach of the statute as a matter of statutory *stare decisis* going back 150 years.” *Bilski*, 130 S. Ct. at 3225 (emphasis added).

Critically, after reviewing its past cases applying § 101, the Court reaffirmed in *Mayo* that § 101 performs a “screening function” separate and apart from other provisions of the Patent Act. 132 S. Ct. at 1303-04. This Court explicitly rejected an approach—like the one adopted by the Federal Circuit below—that would “shift the patent eligibility inquiry entirely to these later sections” because it would make the longstanding exceptions to § 101 patentability a “dead letter” and is “not consistent with prior law.” *Id.* Moreover, in direct contrast to the Federal Circuit’s treatment of § 112 as subsuming § 101, this Court held that a patent embodying “a law of nature (*or its equivalent*)” could satisfy § 112 and yet still flunk § 101 because of the risk that the patent “would significantly

impede future innovation.” *Id.* at 1304 (emphasis added). The Federal Circuit directly contravened *Mayo* by effectively eliminating § 101’s own screening role in favor of other grounds for invalidity.

The United States has explicitly rejected the Federal Circuit’s position. See U.S. Amicus Br., *CLS Bank*, 717 F.3d 1269 (Fed. Cir. 2013) (No. 2011-1301) (en banc), 2012 WL 6838192 (“U.S. *CLS Bank* Br.”). The government has recognized that *Bilski* and *Mayo* direct courts to approach the exceptions to § 101 “more rigorously.” *Id.* at 1. The Federal Circuit’s approach is just the opposite. The United States also recognized *Mayo*’s clear command that “§ 101 performs a screening function that these other provisions”— §§ 102, 103, and 112—“do not.” *Id.* at 20.⁴

2. The Federal Circuit also contravened this Court’s precedents by adopting a *heightened* standard for abstractness—ratcheting up the burden in establishing that a claim is ineligible under § 101 because it is abstract. The court below ultimately held that the claimed invention in this case is patent eligible because it “is not ‘*so manifestly* abstract as to override the statutory language of section 101.” App. 36a (emphasis added) (quoting *Research Corp.*); see also *id.* at 27a (“so abstract” (quoting *Research Corp.*)).

Neither *Mayo* nor this Court’s other precedents have applied anything like this heightened, “manifest abstractness” standard. The question under this Court’s longstanding precedent is whether the subject

⁴ While varying in some respects with WildTangent’s position on the role of § 101, the government’s position in *CLS Bank* calls for a more rigorous role for § 101 than the Federal Circuit did here and rejects key elements of the Federal Circuit’s framework.

matter is an “abstract idea”—period. *See Myriad*, 133 S. Ct. at 2116; *Mayo*, 132 S. Ct. at 1293; *Bilski*, 130 S. Ct. at 3225, 3230. There is no basis for increasing the standard from abstractness to *manifest* abstractness. If anything, this Court’s precedents require tilting the inquiry in the opposite direction because they require a showing that the patent adds “significantly more” to the law of nature (or abstract idea) claimed in order to satisfy § 101. *See, e.g., Mayo*, 132 S. Ct. at 1294 (citing *Parker v. Flook*, 437 U.S. 584 (1978), *Bilski*), 1297 (patent must do “significantly more than simply describe the[] natural relations”). By contrast, the “manifest abstractness” standard is simply “an escape hatch” from § 101. *CLS Bank*, 685 F.3d at 1357 (Prost, J., dissenting) (rejecting court’s application of analogous “‘manifestly evident’ standard”).

The United States has unequivocally rejected the Federal Circuit’s heightened standard for abstractness, which originated in *Research Corp.* The government “does not believe it is appropriate to impose a requirement of ‘manifest’ abstractness for invalidity under § 101.” U.S. *CLS Bank* Br. 15 (citing *Research Corp.*). Indeed, as the government has explained, “[a]n additional, substantive requirement of ‘manifest’ abstractness under § 101 has *no basis* in the Supreme Court’s jurisprudence and would arguably be at odds with the exception itself, which prohibits patents on *all* abstract ideas, not just those that are manifestly abstract.” *Id.* (first emphasis added).

3. The Federal Circuit further diminished § 101’s role by repeatedly emphasizing that it should not be the basis for dismissal at the pleading stage. The court admonished district courts that dismissal on § 101 grounds should be “rare,” “the exception,” and is

“normally” “improper” and “inappropriate.” App. 4a-7a, 17a. The court based this new rule on its overgeneralized assertion that the § 101 analysis is “rife with underlying factual issues” and thus “claim construction normally will be required.” *Id.* at 5a-6a; *see also id.* at 17a, 21a. But that is certainly not true in all cases, and there is no basis for adopting a categorical rule (or virtually categorical rule) against invoking § 101 at the pleading stage. Indeed, in this very case, the Federal Circuit recognized that *there are no such factual issues* and that “the subject matter at stake and its eligibility does not require formal claim construction.” *Id.* at 7a-8a; *accord id.* at 29a; *id.* at 38a (Lourie, J., concurring). The court’s observations, therefore, are not apt in this case, and serve no purpose other than to discourage district courts from testing patent claims under § 101’s eligibility requirement.

Elimination of § 101 as a defense at the pleading stage conflicts with this Court’s precedents. Section 101 is a “threshold test,” *Bilski*, 130 S. Ct. at 3225, and a “screening” device, *Mayo*, 132 S. Ct. at 1303. It will lose its utility as such if parties have to go through expensive discovery and formal claim construction before § 101 patent eligibility can be determined. This Court has repeatedly recognized that other threshold issues must be adjudicated as soon as possible. *See Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 558 (2007) (deficiency of a claim should “be exposed at the point of minimum expenditure of time and money by the parties and the court.” (citations omitted)); *Pearson v. Callahan*, 555 U.S. 223, 232 (2009) (“[W]e repeatedly have stressed the importance of resolving immunity questions at the earliest possible stage in litigation.” (citation omitted)). Furthermore, this Court has

previously held that patents are ineligible under § 101 without formal claim construction. *Bilski*, 130 S. Ct. 3218. The Federal Circuit’s attempt to close the door on § 101 challenges at the pleading stage is unfounded.⁵

In all these ways, the Federal Circuit’s decision in this case establishes a far different—and *less* exacting—role for § 101 than the one recognized by this Court in *Mayo* and other decisions.

B. The Federal Circuit’s Decision Effectively Gives Computer-Implemented Claims A “Free Pass” Through § 101

The Federal Circuit’s framework is written in broad terms that could apply to all patents regardless of their subject matter, but its decision establishes a virtually insurmountable rule of patent eligibility under § 101 for computer-implemented claims in particular. That rule is sharply at odds with this Court’s precedents.

1. The decision below directly contravenes the key teaching of *Mayo*—that “simply appending conventional steps, specified at a high level of generality, to laws of nature, natural phenomena, and abstract ideas cannot make those laws, phenomena, and ideas patentable.” 132 S. Ct. at 1300. Instead, *Mayo* holds, a patent must claim an “inventive concept” that does “significantly more” than the law of nature (or abstract idea) itself. *Id.* at 1294; *see CLS Bank*, 685 F.3d at 1356 (*Mayo* “made clear what had been written

⁵ The Federal Circuit also required “clear and convincing evidence” of abstractness, even though it recognized that there are no disputed factual issues precluding the § 101 analysis here. *See, e.g.*, App. 6a, 14a. But this Court has never applied that evidentiary standard in the § 101 analysis, and it could not apply to the *legal* determination of abstractness under § 101.

between the lines before: It is not sufficient to put an abstract idea into use with “[p]urely “conventional or obvious” “pre-solution activity.”” (alteration in original) (citation omitted) (Prost, J., dissenting)). The decision below flouts that principle by holding that a reference to a “conventional” function that can be performed by any general-purpose computer straight off the shelf at Best Buy or the Apple Store—accessing an Internet website—is sufficient to transform an abstract idea into a patent eligible invention.

In *Mayo*, the medical diagnostic method failed that test because it “simply tells doctors to: (1) measure (somehow) the current level of the relevant metabolite, (2) use particular (unpatentable) laws of nature (which the claim sets forth) to calculate the current toxicity/inefficacy limits, and (3) reconsider the drug dosage in light of the law.” 132 S. Ct. at 1299. The Court explained that “[t]hese instructions add nothing specific to the laws of nature other than what is well-understood, routine, conventional activity, previously engaged in by those in the field,” but instead “the effect is simply to tell doctors to apply the law somehow when treating their patients.” *Id.* at 1299-1300. The “determining” step failed because it “is set forth in highly general language covering all processes . . . including later discovered processes that measure metabolite levels in new ways.” *Id.* at 1302.

So too here. Indeed, if anything the patent at issue here is even *more* general than the one held ineligible in *Mayo* and at most invokes a routine use of a general-purpose computer. The Federal Circuit’s decision that the claims at issue are patent eligible thus defies this Court’s ruling in *Mayo*. The Federal Circuit emphasized that the claimed invention must entail an

“extensive computer interface.” App. 33a. But the patent does not specify any computer programming and, instead, simply refers to “providing the media products for sale at an Internet website.” ’545 patent col. 8 ll.20-21 (Fed. Cir. JA 481). That “limit” could not be any more generalized. Reliance on the patent’s reference to the Internet (or the generic computer “interface” required to access the Internet) to satisfy § 101 is precisely what this Court prohibited in *Mayo* when it stated that “simply appending conventional steps, specified at a high level of generality, to . . . abstract ideas cannot make those laws, phenomena, and ideas patentable.” 132 S. Ct. at 1300.

According to the Federal Circuit, “many of [the claim’s] steps require”—or “likely” require, App. 49a—“intricate and complex computer programming,” and “several steps plainly require that the method be performed through computers, on the internet, and in a cyber-market environment.” *Id.* at 29a-30a. But the patent itself does not contain *any* specific computer programming. Judge Lourie chided the majority for relying on “a computer or complex computer program” because “it is not what the claim specifically requires and thus should not be the focus of the analysis.” *Id.* at 38a-39a. And even the majority recognized that the “broadly claimed” method at issue “does not specify a particular mechanism for delivering media content to the consumer.” *Id.* at 35a. The Federal Circuit’s reliance on non-existent “complex computer programming” to transform an unpatentable abstract idea into a patent-eligible one is even more problematic than the analysis this Court rejected in *Mayo*.

Just as “one must do more than simply state the law of nature while adding the words ‘apply it,’” *Mayo*, 132

S. Ct. at 1294, one must do more than simply state the abstract idea and add the words “apply it on a computer”—or “over the Internet.” The determining step in *Mayo* was too general because it “cover[ed] all processes” “including later discovered processes” for measuring metabolites. Here, the steps in the ’545 patent are too general because they do not specify any computer programming and thus could cover any programming that would effectuate the broadly claimed process, including later discovered programming. Ultramercial’s patent does not add anything new or inventive about how to use advertising as currency over the Internet. Instead, by adding the generic phrase “at an Internet website” to an otherwise abstract idea, Ultramercial is simply trying to monopolize the abstract idea of trading advertisement viewing for content over the Internet, claiming dominion over inventions that Ultramercial never conceived and that must be implemented through computer programming not specified in the ’545 patent. Granting Ultramercial exclusive patent rights when it has not added any “inventive concept” is antithetical to the purposes of the patent system, *see Mayo*, 132 S. Ct. at 1294, 1301-03, if not beyond the scope of the Patent Clause, *see* U.S. Const. art. I, § 8.

Furthermore, the Federal Circuit noted that delivery of the media to the consumer could be accomplished through numerous well-known means: “FTP downloads, email, or real-time streaming.” App. 37a. Under *Mayo*, the addition of “well-understood, routine, conventional activity” does not make the abstract idea patent eligible. 132 S. Ct. at 1299-1300.

2. The Court’s decision in *Mayo* also sharpens the direct conflict between the decision below and this

Court's decisions in *Bilski*, *Flook*, and *Benson*, which also held that an abstract idea does not become patent eligible simply by "limiting" it to a particular field or technological environment or adding conventional steps. Holding that such claims are patent eligible would let "patent eligibility 'depend simply on the draftsman's art,'" *id.* at 1294 (quoting *Flook*, 437 U.S. at 593)—and here, a simple reference to "an Internet website" or generic computer implementation.

As the Court explained in *Mayo*, the abstract idea of hedging at issue in *Bilski* did not become patent eligible by limiting it "to use in commodities and energy markets" and adding "well known random analysis techniques." *Id.* at 1301 (quoting *Bilski*, 130 S. Ct. at 3224). In *Flook*, the abstract idea of using a formula to compute an updated alarm limit did not become patent eligible merely by adding "well known" limits, including "the use of computers for 'automatic monitoring alarming.'" *Id.* at 1299 (quoting *Flook*, 437 U.S. at 594). Unlike the patent-eligible process in *Diamond v. Diehr*, 450 U.S. 175 (1981), the process in *Flook* "did not 'explain how the variables used in the formula were to be selected, nor did the [claim] contain any disclosure relating to chemical processes at work or the means of setting off an alarm or adjusting the alarm limit.'" 132 S. Ct. at 1299 (alteration in original) (quoting *Diehr*, 450 U.S. at 192 n.14). These limits, the *Mayo* Court reiterated, were too general and thus "did not limit the claim to a particular invention." *Id.* And in *Benson*, the abstract idea of converting binary-coded decimal numbers to pure binary did not become patent eligible "simply [by] implementing [it] on a physical machine, namely a computer." *Id.* at 1301.

In stark contrast, the Federal Circuit held that the concededly abstract idea of using advertisements as currency *did* become patent eligible simply by “limiting” it to the Internet through the highly general statement that a product be offered “at an Internet website.” That result stands in jarring contravention with the outcomes in *Mayo*, *Bilski*, *Flook*, and *Benson*. Indeed, under the Federal Circuit’s reasoning, the abstract concept of hedging risk in *Bilski* would have become patent eligible if the claim had simply required that the commodities transactions be carried out “over the Internet”—which is where they would most naturally have occurred in any event.

“Given the ubiquity of computers in contemporary life, allowing a process to become patentable simply because it is computer-implemented or invokes the use of the Internet would render the subject-matter eligibility criteria contained in section 101 virtually meaningless.” *MySpace, Inc. v. GraphOn Corp.*, 672 F.3d 1250, 1267 (Fed. Cir. 2012) (Mayer, J., dissenting). For computer-implemented methods, the decision below is tantamount to a return to the flawed regime established by the Federal Circuit in *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, under which any invention that produced a “useful, concrete, and tangible result” is patent eligible. 149 F.3d 1368, 1375 (Fed. Cir. 1998) (citation omitted). This Court squarely rejected that test in *Bilski*, 130 S. Ct. at 3231, recognizing that it resulted in the “granting of patents that ‘ranged from the somewhat ridiculous to the truly absurd,’” *id.* at 3259 (Breyer, J., concurring in judgment). There is no basis to condone a return to that already rejected open-door policy here.

The United States has also recognized that this Court's precedents do not permit broad rules of eligibility (or ineligibility) for computer-implemented claims. As the government has explained, "categorical, bright-line tests for eligibility under § 101 are not appropriate," so "recitation in a claim that . . . a method is implemented by a computer . . . no longer can serve as a virtually-dispositive indicator of patent eligibility." U.S. *CLS Bank* Br. 5-6. The claim must include "meaningful limitations" of the abstract idea, which does not include "a mere field-of-use limitation, a tangential reference to technology, [or] insignificant extra-solution activity." *Id.* at 7. More specifically, the "mere fact that a computer may be a 'necessary' element in the claim" and "routine uses of a computer" for its "ordinary functions" do not meaningfully limit claims for § 101 purposes. *Id.* at 11-12. The Federal Circuit's reliance on the use of the Internet in this case is plainly at odds with this position.

3. The Federal Circuit's adoption of an industry-specific framework for the technology industry also conflicts with this Court's precedents. The Federal Circuit stated that "inventions with specific applications or improvements to technologies in the marketplace are *not likely* to be so abstract that they override the statutory language and framework of the Patent Act." App. 27a (emphasis added) (quoting *Research Corp.*). The court further stated that "[b]ecause technology is ever-changing and evolves in unforeseeable ways, this court gives *substantial weight* to the statutory reluctance to list any new, non-obvious, and fully disclosed subject matter as beyond the reach of Title 35." *Id.* at 15a (emphasis added). As the United States has explained, however, "this Court

has traditionally eschewed” the use of an “industry-specific calculus.” U.S. Amicus Br. 32, *Myriad*, 133 S. Ct. 2107 (2013) (No. 12-398). In *Mayo*, the Court reiterated that it “must hesitate before departing from established general legal rules lest a new protective rule that seems to suit the needs of one field produce unforeseen results in another.” 132 S. Ct. at 1304. There is no reason to carve out a special rule for computer- or Internet-related claims.

Nor is there any basis to dispense in this context with the machine-or-transformation test as a tool for gauging eligibility under § 101. The Federal Circuit again dismissed the machine-or-transformation test as an anachronism for “inventions of the Information Age,” relying on two statements from *Bilski* that were *not* adopted by a majority of this Court. App. 46a; *see Bilski*, 130 S. Ct. at 3223 n.1. That conflicts with *Bilski* and *Mayo*, which reaffirmed that “the machine-or-transformation test is a useful and important clue, an investigative tool, for determining whether some claimed inventions are processes under § 101.” *Bilski*, 130 S. Ct. at 3227; *Mayo*, 132 S. Ct. at 1303.

II. THE FEDERAL CIRCUIT IS HOPELESSLY DIVIDED ON THE APPLICATION OF § 101 TO COMPUTER-RELATED PATENTS

As the extraordinary outcome in *CLS Bank* underscores, the Federal Circuit is hopelessly and intransigently divided on the application of § 101 to computer-related patents. The en banc court in *CLS Bank* split both as to result and rationale, producing five different opinions, but no majority rule. The court itself recognized that it left the application of § 101 to computer-related patents in complete disarray.

Chief Judge Rader observed that “[n]o portion of any opinion issued today other than our Per Curiam Judgment garners a majority,” thus “nothing said today beyond our judgment has the weight of precedent.” 717 F.3d at 1292 n.1 (dissenting in part). Critically, even though “a majority of the judges on the court agree that the method claims do not recite patent eligible subject matter, no majority of those judges agrees as to the legal rationale for that conclusion.” *Id.* Judge Lourie agreed. *Id.* at 1274 n.1 (concurring). He noted that the “proper application” of § 101 “to computer-implemented inventions and in various other fields of technology has long vexed this and other courts” and “a framework that will provide guidance and predictability for patent applicants and examiners, litigants, and the courts” is “needed.” *Id.* at 1276-77.

But the en banc court did not supply the needed framework. As Judge Newman lamented, the effort “to remedy distortions flowing from inconsistent precedent on section 101” “has failed.” *Id.* at 1321 (concurring in part, dissenting in part). Rather than ameliorating the uncertainty for inventors, “[the court] ha[s] propounded at least three incompatible standards, devoid of consensus, serving simply to add to the unreliability and cost of the system of patents as an incentive for innovation.” *Id.* And Judges Linn and O’Malley viewed Chief Judge Rader’s analysis of the method claims as “internally inconsistent” with his analysis of the system claims. *Id.* at 1330 (dissenting from judgment). *CLS Bank* provided no guidance.

The decision in this case underscores the conflict that exists in the Federal Circuit. It cannot be reconciled with the judgment in *CLS Bank*—which *does* have precedential effect. Although the en banc

court reached the proper judgment that the claims at issue in *CLS Bank* were not patent eligible, the role of a general-purpose computer in implementing the computerized trading program for reducing settlement risk was if anything more detailed than the role of a general purpose computer under the claims at issue here. Indeed, whereas the claim analyzed in this case simply refers to “an Internet website,” the claims in *CLS Bank* were much more detailed and computer grounded. They referred to an “electronic adjustment” limitation, which the parties “agreed ‘requir[es] the use of a computer,’” and limitations involving shadow credit and debit records, which also require computer implementation. 685 F.3d at 1354 (alteration in original). The specifications provide further detail about the computer implementation because they disclose a detailed description of “a system called ‘INVENTICO’” and a “CONTRACT APP.” *Id.*

Moreover, because *CLS Bank* did not produce a precedential rationale for the court, the conflict between this case and the Federal Circuit’s pre-*CLS Bank* cases also remains. *See, e.g., Bancorp Servs., LLC v. Sun Life Assurance Co. of Can. (USA)*, 687 F.3d 1266, 1278 (Fed. Cir. 2012) (“[T]he use of a computer in an otherwise patent ineligible process for no more than its most basic function—making calculations or computations—fails to circumvent the prohibition against patenting abstract ideas and mental processes.”); *CyberSource Corp. v. Retail Decisions, Inc.*, 654 F.3d 1366, 1375 (Fed. Cir. 2011) (“[T]he basic character of a process claim drawn to an abstract idea is not changed by claiming only its performance by computers”); *Dealertrack, Inc. v. Huber*, 674 F.3d 1315, 1333 (Fed. Cir. 2012) (“Simply adding a ‘computer

aided' limitation to a claim covering an abstract concept, without more, is insufficient to render the claim patent eligible.”). Only this Court can resolve the intractable conflict in the Federal Circuit.

III. THIS COURT’S GUIDANCE IS URGENTLY NEEDED ON THE IMPORTANT QUESTION PRESENTED

This Court’s guidance is urgently needed on the patentability of computer-implemented methods. Thousands of patents apply to some aspect of the Internet. Indeed, one source estimated that 11,000 patents apply just to selling, shipping, or advertising products online. James Bessen & Michael J. Meurer, *Patent Failure: How Judges, Bureaucrats, and Lawyers Put Innovators at Risk* 9-9 (2008). This case involves a business method implemented “at an Internet website,” but the Federal Circuit’s broad reasoning also may impact software and other technological patents. Scholars have estimated that 20,000 software patents are granted each year. See James Bessen & Robert M. Hunt, *An Empirical Look at Software Patents*, 16 J. Econ. & Mgmt. Strategy 157, 158 (2007). And the software industry is one of the critical drivers and fastest growing components of our Nation’s economy. See, e.g., Ronald J. Mann, *Do Patents Facilitate Financing in the Software Industry?*, 83 Tex. L. Rev. 961, 963 (2005). Moreover, as this case illustrates, “[m]any software and business method patents simply describe a basic, well-known concept that has been implemented or applied using conventional computer technology.” *MySpace*, 672 F.3d at 1267 (Mayer, J., dissenting).

The Federal Circuit’s intractable internal conflict over § 101 has thrown this entire category of patents

into a state of intolerable uncertainty. Indeed, even before the dust up in *CLS Bank*, commentators described the case law on the patent eligibility of computer-related inventions as “extraordinarily unclear”—a “rule-less wasteland of post-*Bilski* jurisprudence” that “is excruciatingly difficult to maneuver.” Robert D. Swanson, *Note: Section 101 and Computer-Implemented Inventions*, 16 *Stan. Tech. L. Rev.* 161, 162, 184 (2012). The “nightmare” of fractured opinions in *CLS Bank* did not resolve the issue.⁶ And the decision below added to the conflict. According to commentators, the Federal Circuit’s broad ruling in this case “set[s] the stage for rampant patent litigation to continue unchecked” and continues to evidence “two Federal Circuits on this issue,” furthering a “kind of legal uncertainty [that] can’t last forever.”⁷ Moreover, the Federal Circuit’s broad ruling “set[s] up a conflict” with this Court’s decisions and “could be seen as a show of defiance” after this Court’s GVR order.⁸

The current uncertainty makes investments riskier and stifles innovation in the technology sector. As

⁶ Gene Quinn, *Federal Circuit Nightmare in CLS Bank v. Alice Corp.*, IPWatchdog (May 10, 2013), <http://www.ipwatchdog.com/2013/05/10/federal-circuit-nightmare-in-cls-bank-v-alice-corp/id=40230/>.

⁷ Timothy B. Lee, *One of the worst patents ever just got upheld in court*, Washington Post, Wonkblog, (June 24, 2013), <http://www.washingtonpost.com/blogs/wonkblog/wp/2013/06/24/on-e-of-the-worst-patents-ever-just-got-upheld-in-court/> (citation omitted).

⁸ Daniel Fisher, *Take That, SCOTUS: Appeals Court Reinstates Patent On Video-Ad Technology*, Forbes (June 21, 2013), <http://www.forbes.com/sites/danielfisher/2013/06/21/take-that-scotus-appeals-court-reinstates-patent-on-video-ad-technology/>.

Judge Newman explained, “the uncertainty of administrative and judicial outcome and the high cost of resolution are a disincentive to both innovators and competitors.” *CLS Bank*, 717 F.3d at 1321 (concurring in part, dissenting in part). Litigation costs are already high—according to studies, “software and business method patents account for nearly forty percent of the total cost of patent litigation and the problem is getting worse.” Gerard N. Magliocca, *Patenting the Curve Ball: Business Methods and Industry Norms*, 2009 BYU L. Rev. 875, 887 (2009). Indeed, the cost of litigation for software and information technology patents often exceeds the profits of the patents. See Bessen & Meurer, *supra*, at 15-16, 144.

Section 101 “is virtually the only defensive mechanism left for repeat victims of software patent holdup.” Brian J. Love, *Why Patentable Subject Matter Matters for Software*, 81 Geo. Wash. L. Rev. Arguendo 1, 3 (2012). Patent infringement litigation “defense costs are extremely high,” so plaintiffs “can often negotiate sizeable settlements” simply because the price is lower than the cost of discovery or defending a trial. *Id.* at 10. The current legal uncertainty and the effective elimination of § 101 as a screening device makes it easier for plaintiffs to extract unwarranted settlements. And as the number of cases decided by the Federal Circuit in just the past few years illustrates, the question whether computer-implemented methods are patentable arises frequently.

As amici Google Inc. and Verizon Communications Inc. noted previously, this case “is an unusually clean vehicle” in which to address this issue and provide needed guidance. Google Amicus Br. 13 (No. 11-962). The concept of trading advertisement viewing for

content is indisputably abstract. App. 28a. The court below recognized that formal claim construction was not necessary before resolving the § 101 issue presented here. *Id.* at 29a-30a, 38a. The claims at issue are based on technology that is easily understood—indeed, virtually any Internet user is familiar with websites that require viewing advertisements before viewing content. This case not only presents a computer-related method but one that applies to the Internet, a growing body of method patents. *Supra* at 31. And the Federal Circuit’s decision in this case holding that the claims at issue are patent eligible under § 101 is written in sweeping terms and will all but eliminate the important role of § 101 in screening computer- and Internet-related patents.

CONCLUSION

For the foregoing reasons, the petition for writ of certiorari should be granted.

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APPENDIX

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UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

ULTRAMERCIAL, INC. AND
ULTRAMERCIAL, LLC, Plaintiffs-Appellants,
v.
HULU, LLC, Defendant, AND WILDTANGENT,
INC., Defendant-Appellee.

2010-1544

June 21, 2013, Decided

2013 U.S. App. LEXIS 12715

Before RADER, Chief Judge, LOURIE and O'MALLEY, Circuit Judges. Opinion for the court filed by Chief Judge RADER. Concurring opinion filed by Circuit Judge LOURIE.

OPINION

RADER, *Chief Judge*.

The United States District Court for the Central District of California dismissed this patent suit, filed by Ultramercial, LLC and Ultramercial, Inc. (collectively, "Ultramercial"), by holding that U.S. Patent No. 7,346,545 ("the '545 patent") does not claim patent-eligible subject matter. In an earlier decision, later vacated by the United States Supreme Court, this court reversed the district court's holding and remanded. *Ultramercial, LLC v. Hulu, LLC*, 657 F.3d 1323 (Fed. Cir. 2011), vacated sub nom. *WildTangent, Inc. v. Ultramercial, LLC*, 132 S.Ct. 2431, 182 L. Ed. 2d 1059 (2012). Because this court again holds that the district court erred in holding that the subject matter

of the '545 patent is not a “process” within the language and meaning of 35 U.S.C. § 101, this court again reverses and remands.

I.

The '545 patent claims a method for distributing copyrighted products (*e.g.*, songs, movies, books) over the Internet where the consumer receives a copyrighted product for free in exchange for viewing an advertisement, and the advertiser pays for the copyrighted content. Claim 1 of the '545 patent reads:

A method for distribution of products over the Internet via a facilitator, said method comprising the steps of:

a first step of receiving, from a content provider, media products that are covered by intellectual property rights protection and are available for purchase, wherein each said media product being comprised of at least one of text data, music data, and video data;

a second step of selecting a sponsor message to be associated with the media product, said sponsor message being selected from a plurality of sponsor messages, said second step including accessing an activity log to verify that the total number of times which the sponsor message has been previously presented is less than the number of transaction cycles contracted by the sponsor of the sponsor message;

a third step of providing the media product for sale at an Internet website;

a fourth step of restricting general public access to said media product;

a fifth step of offering to a consumer access to the media product without charge to the consumer on the precondition that the consumer views the sponsor message;

a sixth step of receiving from the consumer a request to view the sponsor message, wherein the consumer submits said request in response to being offered access to the media product;

a seventh step of, in response to receiving the request from the consumer, facilitating the display of a sponsor message to the consumer;

an eighth step of, if the sponsor message is not an interactive message, allowing said consumer access to said media product after said step of facilitating the display of said sponsor message;

a ninth step of, if the sponsor message is an interactive message, presenting at least one query to the consumer and allowing said consumer access to said media product after receiving a response to said at least one query;

a tenth step of recording the transaction event to the activity log, said tenth step including updating the total number of times the sponsor message has been presented; and

an eleventh step of receiving payment from the sponsor of the sponsor message displayed.

'545 patent col. 8, ll. 5-48.

Ultramercial sued Hulu, LLC (“Hulu”), YouTube, LLC (“YouTube”), and WildTangent, Inc. (“WildTangent”), alleging infringement of the '545 patent. Hulu and YouTube have been dismissed from the case. WildTangent moved to dismiss for failure to state a claim, arguing that the '545 patent did not claim patent-eligible subject matter. The district court granted WildTangent’s pre-answer motion to dismiss under Rule 12(b)(6). Ultramercial appeals. This court has jurisdiction under 28 U.S.C. § 1295(a)(1).

This court reviews a district court’s dismissal for failure to state a claim under the law of the regional circuit. *Juniper Networks, Inc. v. Shipley*, 643 F.3d 1346, 1350 (Fed. Cir. 2011) (citation omitted). The Ninth Circuit reviews de novo challenges to a dismissal for failure to state a claim under Fed. R. Civ. P. 12(b)(6). *Livid Holdings Ltd. v. Salomon Smith Barney, Inc.*, 403 F.3d 1050, 1055 (9th Cir. 2005). This court also reviews the ultimate determination regarding patent-eligible subject matter under 35 U.S.C. § 101 without deference. *In re Ferguson*, 558 F.3d 1359, 1363 (Fed. Cir. 2009).

II.

The district court dismissed Ultramercial’s claims for failure to claim statutory subject matter without formally construing the claims and, further, without requiring defendants to file answers. This raises several preliminary issues.

First, it will be rare that a patent infringement suit can be dismissed at the pleading stage for lack of patentable subject matter. This is so because every issued patent is presumed to have been issued

properly, absent clear and convincing evidence to the contrary. *See, e.g., CLS Bank Int'l v. Alice Corp.*, F.3d , 2013 U.S. App. LEXIS 9493, 2013 WL 1920941, *33 (Fed. Cir. May 10, 2013) (Chief Judge Rader, and Judges Linn, Moore, and O'Malley, concluding that “any attack on an issued patent based on a challenge to the eligibility of the subject matter must be proven by clear and convincing evidence,” and Judges Lourie, Dyk, Prost, Reyna, and Wallach, concluding that a statutory presumption of validity applies when § 101 is raised as a basis for invalidity in district court proceedings.). Further, if Rule 12(b)(6) is used to assert an affirmative defense, dismissal is appropriate only if the well-pleaded factual allegations in the complaint, construed in the light most favorable to the plaintiff, suffice to establish the defense. *See Bell Atlantic Corp. v. Twombly*, 550 U.S. 544, 555, 127 S. Ct. 1955, 167 L. Ed. 2d 929 (2007); *Jones v. Bock*, 549 U.S. 199, 215, 127 S. Ct. 910, 166 L. Ed. 2d 798 (2007). Thus, the *only* plausible reading of the patent must be that there is clear and convincing evidence of ineligibility. For those reasons, Rule 12(b)(6) dismissal for lack of eligible subject matter will be the exception, not the rule.

Second, as is shown more fully below, the analysis under § 101, while ultimately a legal determination, is rife with underlying factual issues. For example, while members of this court have used varying formulations for the precise test, there is no doubt the § 101 inquiry requires a search for limitations in the claims that narrow or tie the claims to specific applications of an otherwise abstract concept. *CLS Bank*, F.3d , 2013 U.S. App. LEXIS 9493, 2013 WL 1920941 at *27-30 (meaningful limitations); 2013 U.S. App. LEXIS

9493, [WL] at *10 (opinion of Lourie, J.). Further, factual issues may underlie determining whether the patent embraces a scientific principle or abstract idea. *Id.* (opinion of Lourie, J.) (“The underlying notion is that a scientific principle ... reveals a relationship that has always existed.”) (quoting *Parker v. Flook*, 437 U.S. 584, 593 n.15, 98 S. Ct. 2522, 57 L. Ed. 2d 451 (1978)). If the question is whether “genuine human contribution” is required, and that requires “more than a trivial appendix to the underlying abstract idea,” and were not at the time of filing “routine, well-understood, or conventional,” factual inquiries likely abound. 2013 U.S. App. LEXIS 9493, [WL] at *11–12. Almost by definition, analyzing whether something was “conventional” or “routine” involves analyzing facts. 2013 U.S. App. LEXIS 9493, [WL] at *12. Likewise, any inquiry into the scope of preemption—how much of the field is “tied up” by the claim—by definition will involve historic facts: identifying the “field,” the available alternatives, and preemptive impact of the claims in that field. The presence of factual issues coupled with the requirement for clear and convincing evidence normally will render dismissal under Rule 12(b)(6) improper.

Third, and in part because of the factual issues involved, claim construction normally will be required. This court has never set forth a bright line rule requiring district courts to construe claims before determining subject matter eligibility. Indeed, because eligibility is a “coarse” gauge of the suitability of broad subject matter categories for patent protection, *Research Corp. Techs., Inc. v. Microsoft Corp.*, 627 F.3d 859, 869 (Fed. Cir. 2010), claim construction may not always be necessary for a § 101 analysis. *See, e.g.*,

Bilski v. Kappos, 130 S. Ct. 3218, 3231, 177 L. Ed. 2d 792 (2010) (finding subject matter ineligible for patent protection without claim construction); *CLS Bank*, F.3d , 2013 U.S. App. LEXIS 9493, 2013 WL 1920941 (court decided eligibility of subject matter without formal claim construction).

On the other hand, if there are factual disputes, claim construction should be required. The procedural posture of the case may indicate whether claim construction is required. This case involves Rule 12(b)(6), which 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. It may also be feasible for the district court to choose to construe the claims in accordance with this court's precedent, or to adopt the construction proffered by the patentee. In either case, it cannot decide factual questions at this stage. At summary judgment, the district court may choose to construe the claims in accordance with this court's precedent, or if not it may choose to give a construction most favorable to the patentee, and to apply the usual rules pertaining to summary judgment from there, and still require clear and convincing evidence of ineligible subject matter.

Of course, even if not required, on many occasions a definition of the invention by claim construction can clarify the basic character of the subject matter of the invention. Thus, claim meaning may clarify the actual subject matter at stake in the invention and can enlighten, or even answer, questions about subject matter abstractness. In this procedural posture, however, the subject matter at stake and its eligibility

does not require formal claim construction.

Finally, fourth, the question of eligible subject matter must be determined on a claim-by-claim basis. Construing every asserted claim and then conducting a § 101 analysis may not be a wise use of judicial resources.

With these thoughts in mind, the court turns to the question of whether the court correctly dismissed the suit under § 101.

III.

A.

The statute controls the inquiry into patentable subject matter. 35 U.S.C. § 101 sets forth the categories of subject matter that are eligible for patent protection: “[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.” (Emphasis added). Underscoring its breadth, § 101 both uses expansive categories and modifies them with the word “any.” In *Bilski*, the Supreme Court emphasized that “[i]n choosing such expansive terms modified by the comprehensive ‘any,’ Congress plainly contemplated that the patent laws would be given wide scope.” 130 S. Ct. at 3225 (quoting *Diamond v. Chakrabarty*, 447 U.S. 303, 308, 100 S. Ct. 2204, 65 L. Ed. 2d 144 (1980)).

The pertinent, expansive definition of “process” in § 100(b) confirms the statute’s intended breadth. At first examination, the Act’s definition of “process” to include a new use of a known machine seems superfluous. After all, if “any” process may be

patented under § 101, § 100(b) seems wholly unnecessary. The amendment was necessary to avoid narrow judicial interpretations of “process” given to the pre-1952 statute. Specifically, the 1952 amendments added § 100(b) to ensure that doubts about the scope of a “process” under the pre-1952 version of the patent statute would not be read into the new Act. P.J. Federico, *Commentary on the New Patent Act*, reprinted in 75 J. Pat. & Trademark Off. Soc’y 161, 177 (1993) (“Remarks have appeared in a few decisions and elsewhere that new uses are not patentable ... [I]f such remarks are interpreted to mean that a new use or application of an old machine ... cannot result in anything patentable then such statements are not and have never been an accurate statement of the law.”); Hearing Before Sub-comm. No. 3 of the Comm. on the Judiciary, at 37 (1951) (Federico testifying that the “definition of ‘process’ has been added ... to clarify the present law as to certain types of methods as to which some doubts have been expressed ...”); S.Rep. No. 82–1979, at 17 (1952) (Explaining that the definition clarified that “processes or methods which involve merely the new use of a known process ... are processes or methods under the statute and may be patented provided the conditions of patentability are satisfied.”). Thus, changes were made to the 1952 Act to *broaden* eligible subject matter and *eliminate doubt* caused by narrow interpretations given to the prior statute. Moreover, not only did Congress expand the definition of “process” in 1952, Title 35 does not list a single ineligible category. At a time when Congress considered § 101, it broadened the statute and certainly did not place any specific limits on it.

The limited role of § 101 even in patentability (the

patentee did not argue that § 101 is not a defense to infringement) is confirmed by other aspects of the Patent Act. As § 101 itself expresses, subject matter eligibility is merely a threshold check; patentability of a claim ultimately depends on “the conditions and requirements of this title,” such as novelty, non-obviousness, and adequate disclosure. 35 U.S.C. § 101; *see Bilski*, 130 S.Ct. at 3225 (Characterizing § 101 as a “threshold test”); *Classen Immunotherapies, Inc. v. Biogen IDEC*, 659 F.3d 1057,1064 (Fed. Cir.2011) (Pointing out the difference between “the threshold inquiry of patent-eligibility, and the substantive conditions of patentability”). By directing attention to the substantive criteria for patentability, Congress made it clear that the categories of patent-eligible subject matter are no more than a “coarse eligibility filter.” *Research Corp.*, 627 F.3d at 869. In other words, Congress made it clear that the expansive categories—process, machine, article of manufacture, and composition of matter—are not substitutes for the substantive patentability requirements set forth in §§ 102, 103, and 112 and invoked expressly by § 101 itself. After all, the purpose of the Patent Act is to encourage innovation, and the use of broadly inclusive categories of statutory subject matter ensures that “ingenuity ... receive[s] a liberal encouragement.” *Chakrabarty*, 447 U.S. at 308. The plain language of the statute provides that any new, non-obvious, and fully disclosed technical advance is eligible for protection.

B.

The Supreme Court has on occasion recognized narrow judicial exceptions to the 1952 Act’s deliberately broadened eligibility provisions. In line

with the broadly permissive nature of § 101's subject matter eligibility principles and the structure of the Patent Act, case law has recognized only three narrow categories of subject matter outside the eligibility bounds of § 101—laws of nature, physical phenomena, and abstract ideas. *Bilski*, 130 S. Ct. at 3225. The Court's motivation for recognizing exceptions to this broad statutory grant was its desire to prevent the "monopolization" of the "basic tools of scientific and technological work," which "might tend to impede innovation more than it would tend to promote it." *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1293, 182 L. Ed. 2d 321 (2012) ("*Prometheus* ") (internal quotation marks omitted).

Though recognizing these exceptions, the Court has also recognized that these implied exceptions are in obvious tension with the plain language of the statute, its history, and its purpose. See *Chakrabarty*, 447 U.S. at 308 ("In choosing such expansive terms as 'manufacture' and 'composition of matter,' modified by the comprehensive 'any,' Congress plainly contemplated that the patent laws would be given wide scope."); *id.* at 315 ("Broad general language is not necessarily ambiguous when congressional objectives require broad terms."). As the Supreme Court has made clear, too broad an interpretation of these exclusions from the grant in § 101 "could eviscerate patent law." *Prometheus*, 132 S. Ct. at 1293; *cf. Bilski*, 130 S. Ct. at 3226 ("This Court has not indicated that the existence of these well-established exceptions gives the Judiciary *carte blanche* to impose other limitations that are inconsistent with the text and the statute's purpose and design.").

Thus, this court must not read § 101 so restrictively

as to exclude “unanticipated inventions” because the most beneficial inventions are “often unforeseeable.” See *Chakrabarty*, 447 U.S. at 316; see also *J.E.M. Ag Supply*, 534 U.S. at 135 (describing § 101 as “a dynamic provision designed to encompass new and unforeseen inventions.”). Broad inclusivity is the Congressional goal of § 101, not a flaw.

To sum up, because eligibility requires assessing judicially recognized exceptions against a broad and deliberately expanded statutory grant, one of the principles that must guide our inquiry is these exceptions should apply narrowly. Indeed, the Supreme Court has cautioned that, to avoid improper restraints on statutory language, acknowledged exceptions thereto must be rare.

C.

In the eligibility analysis as well, the presumption of proper issuance applies to a granted patent. As a practical matter, because judicially acknowledged exceptions could eviscerate the statute, application of this presumption and its attendant evidentiary burden is consistent with the Supreme Court’s admonition to cabin exceptions to § 101. Further, applying the presumption is consistent with patent office practice. Before issuing a patent, the Patent Office rejects claims if they are drawn to ineligible subject matter, just as it rejects claims if not compliant with §§ 102, 103, or 112. With one exception, the Supreme Court’s decisions since 1952 have addressed the propriety of those decisions. Thus, when a patent issues, it does so after the Patent Office assesses and endorses its eligibility under § 101, just as it assesses and endorses its patentability under the other provisions of Title 35. See *Microsoft Corp. v. i4i Ltd. P’ship*, 131 S.Ct. 2238,

2242, 180 L.Ed.2d 131, (2011) (“Congress has set forth the prerequisites for issuance of a patent, which the PTO must evaluate in the examination process. To receive patent protection a claimed invention must, among other things, fall within one of the express categories of patentable subject matter, § 101, and be novel, § 102, and nonobvious, § 103.”).

In sum, the high level of proof applies to eligibility as it does to the separate patentability determinations. Accordingly, any attack on an issued patent based on a challenge to the eligibility of the subject matter must be proven by clear and convincing evidence. *Cf. Microsoft*, 31 S. Ct. at 2242 (“We consider whether § 282 requires an invalidity defense to be proved by clear and convincing evidence. We hold that it does.”).

IV.

A.

Defining “abstractness” has presented difficult problems, particularly for the § 101 “process” category. Clearly, a process need not use a computer, or some machine, in order to avoid “abstractness.” In this regard, the Supreme Court recently examined the statute and found that the ordinary, contemporary, common meaning of “method” may include even methods of doing business. *See Bilski*, 130 S. Ct. at 3228. Accordingly, the Court refused to deem business methods ineligible for patent protection and cautioned against “read[ing] into the patent laws limitations and conditions which the legislature has not expressed.” *Id.* at 3226 (quoting *Diamond v. Diehr*, 450 U.S. 175, 182, 101 S. Ct. 1048, 67 L. Ed. 2d 155 (1981)).

In an effort to grapple with this non-statutory “abstractness” exception to “processes,” the dictionary

provides some help. See Merriam-Webster's Collegiate Dictionary 5 (11th ed. 2003) (defining abstract as "disassociated from any specific instance ... expressing a quality apart from an object <the word *poem* is concrete, *poetry* is [abstract]>"). An abstract idea is one that has no reference to material objects or specific examples—*i.e.*, it is not concrete. This court at one point set forth a machine-or-transformation test as the exclusive metric for determining the subject matter eligibility of processes. *In re Bilski*, 545 F.3d 943, 956 (Fed. Cir. 2008), *aff'd on other grounds*, *Bilski*, 130 S. Ct. 3218, 177 L. Ed. 2d 792. The Supreme Court rejected this approach in *Bilski*, noting that the machine-or-transformation test is simply "a useful and important clue, an investigative tool, for determining whether *some* claimed inventions are processes under § 101" and is not "the sole test for deciding whether an invention is a patent-eligible 'process.'" 130 S. Ct. at 3227 (emphasis added). While machine-or-transformation logic served well as a tool to evaluate the subject matter of Industrial Age processes, that test has far less application to the inventions of the Information Age. See *id.* at 3227-28 ("[I]n deciding whether previously unforeseen inventions qualify as patentable 'processes,' it may not make sense to require courts to confine themselves to asking the questions posed by the machine-or-transformation test. § 101's terms suggest that new technologies may call for new inquiries."). Technology without anchors in physical structures and mechanical steps simply defy easy classification under the machine-or-transformation categories. As the Supreme Court suggests, mechanically applying that physical test "risk[s] obscuring the larger object of securing patents for valuable inventions without transgressing the

public domain.” *Id.* at 3227.

Members of both the Supreme Court and this court have recognized the difficulty of providing a precise formula or definition for the abstract concept of abstractness. *See id.* at 3236 (Stevens, J., concurring) (“The Court ... [has] never provide[d] a satisfying account of what constitutes an unpatentable abstract idea.”); *Research Corp.*, 627 F.3d at 868. Because technology is ever-changing and evolves in unforeseeable ways, this court gives substantial weight to the statutory reluctance to list any new, non-obvious, and fully disclosed subject matter as beyond the reach of Title 35.

B.

A claim can embrace an abstract idea and be patentable. *See Prometheus*, 132 S.Ct. at 1294 (explaining that the fact that a claim uses a basic tool does not mean it is not eligible for patenting). Instead, a claim is not patent eligible only if, instead of claiming an *application* of an abstract idea, the claim is instead *to* the abstract idea itself. The inquiry here is to determine on which side of the line the claim falls: does the claim cover only an abstract idea, or instead does the claim cover an application of an abstract idea? *See Bilski*, 130 S.Ct. at 3230 (“[W]hile an abstract idea, law of nature, or mathematical formula could not be patented, an *application* of a law of nature or mathematical formula to a known structure or process may well be deserving of patent protection.” (emphasis in original) (internal quotation marks omitted)); *Gottschalk v. Benson*, 409 U.S. 63, 67, 93 S. Ct. 253, 34 L. Ed. 2d 273 (1972) (“He who discovers a hitherto unknown phenomenon of nature has no claim to a monopoly of it which the law recognizes. If there is to

be invention from such a discovery, it must come from the *application* of the law of nature to a new and useful end.” (emphasis added) (internal quotation marks omitted)); *Diehr*, 450 U.S. at 187 (“It is now commonplace that an *application* of a law of nature or mathematical formula to a known structure or process may well be deserving of patent protection.”)

In determining on which side of the line the claim falls, the court must focus on the claim as a whole. As the Court explained:

In determining the eligibility of respondents’ claimed process for patent protection under § 101, their claims must be considered *as a whole*. It is inappropriate to dissect the claims into old and new elements and then to ignore the presence of the old elements in the analysis. This is particularly true in a process claim because a new combination of steps in a process may be patentable even though all the constituents of the combination were well known and in common use before the combination was made.

Diehr, 450 U.S. at 188 (emphasis added). The majority in *Diehr* rejected the minority’s approach ignoring portions of the claims: “[i]n order for the dissent to reach its conclusion it is necessary for it to read out of respondents’ patent application all the steps in the claimed process which it determined were not novel or ‘inventive.’ That is not the purpose of the § 101 inquiry ...” *Id.* at 193 n. 15 (citations omitted); *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336, 345, 81 S. Ct. 599, 5 L. Ed. 2d 592 (1961) (“[T]here is no legally recognizable or protected ‘essential’ element, ‘gist’ or ‘heart’ of the invention.”).

The Court has long-recognized that any claim can be stripped down, simplified, generalized, or paraphrased to remove all of its concrete limitations, until at its core, something that could be characterized as an abstract idea is revealed. A court cannot go hunting for abstractions by ignoring the concrete, palpable, tangible limitations of the invention the patentee actually claims.

Instead, the relevant inquiry is whether a claim, as a whole, includes *meaningful* limitations restricting it to an application, rather than merely an abstract idea. *See Prometheus*, 132 S. Ct. at 1297 (“[D]o the patent claims add *enough* to their statements of the correlations to allow the processes they describe to qualify as patent-eligible processes that *apply* natural laws?”); *see also Fort Props., Inc. v. Am. Master Lease LLC*, 671 F.3d 1317, 1323 (Fed. Cir. 2012) (“[T]o impart patent-eligibility to an otherwise unpatentable process under the theory that the process is linked to a machine, the use of the machine must impose meaningful limits on the claim’s scope.” (internal quotation marks omitted)). For these reasons, a claim may be premised on an abstract idea and, indeed, the abstract idea may be of central importance to the invention—the question for patent eligibility is whether the claim contains limitations that meaningfully tie that abstract idea to an actual application of that idea through meaningful limitations.

This analysis is not easy, but potentially wrought with the risk of subjectivity and hindsight evaluations. It also, as noted at the outset, often entails factual inquiries inappropriate on a motion directed to the pleadings. Fortunately, the Supreme Court has provided some guideposts.

An old example may be the most informative. The claims in *O'Reilly v. Morse*, 56 U.S. (15 How.) 62, 14 L. Ed. 601 (1854), and a case described therein, illustrate the distinction between a patent ineligible abstract idea and a practical application of an idea. The “difficulty” in *Morse* arose with the claim in which *Morse*:

d[id] not propose to limit [him]self to the specific machinery or parts of machinery described in the ... specification and claims; the essence of [his] invention being the use of the motive power of the electric or galvanic current ... however developed for marking or printing intelligible characters, signs, or letters, at any distances

Id. at 112 (internal quotation marks omitted). In considering *Morse*'s claim, the Supreme Court referred to an earlier English case that distinguished ineligible claims to a “principle” from claims “applying” that principle:

[I]t seems that the court at first doubted, whether it was a patent for anything more than the discovery that hot air would promote the ignition of fuel better than cold. And if this had been the construction, the court, it appears, would have held his patent to be void; because the discovery of a principle in natural philosophy or physical science, is not patentable.

But after much consideration, it was finally decided that this principle must be regarded as well known, and that the plaintiff had invented a mechanical mode of applying it to furnaces; and that his invention consisted in interposing a heated receptacle, between the blower and the

furnace, and by this means heating the air after it left the blower, and before it was thrown into the fire. Whoever, therefore, used this method of throwing hot air into the furnace, used the process he had invented, and thereby infringed his patent, although the form of the receptacle or the mechanical arrangements for heating it, might be different from those described by the patentee.

Id. at 116. The claim in Morse itself was impermissible because it covered “‘an effect produced by the use of electro-magnetism, distinct from the process or machinery necessary to produce it.’” *The Telephone Cases*, 126 U.S. 1, 534, 8 S. Ct. 778, 31 L. Ed. 863 (1888) (quoting *Morse*, 56 U.S. (15 How.) at 120). This was in contrast to a sustained claim that was limited to:

making use of the motive power of magnetism, when developed by the action of such current or currents, substantially as set forth in the ... description, ... as means of operating or giving motion to machinery, which may be used to imprint signals upon paper or other suitable material, or to produce sounds in any desired manner, for the purpose of telegraphic communication at any distances.

Id. (first ellipsis added, second ellipsis in original) (quoting *Morse*, 56 U.S. (15 How.) at 85). “‘The effect of [*Morse*] was, therefore, that the use of magnetism as a motive power, without regard to the particular process with which it was connected in the patent, could not be claimed, but that its use in that connection could.’” *Benson*, 409 U.S. at 68 (quoting *The Telephone Cases*, 126 U.S. at 534).

The concern underscoring *Morse*, which has become clearer through the Supreme Court's more recent precedents, is to deny patentability to an idea itself, rather than an application of that idea. The Court has provided some guidance on discerning when this should occur.

First, the Supreme Court has stated that a claim is not meaningfully limited if it merely describes an abstract idea or simply adds "apply it." See *Prometheus*, 132 S. Ct. at 1294, 1297. The broad claim in *Morse* provides a striking example of this. We also know that, if a claim covers all practical applications of an abstract idea, it is not meaningfully limited. See *id.* at 1301-02. For example, "[a]llowing petitioners to patent risk hedging would pre-empt use of this approach in *all fields*, and would effectively grant a monopoly over an abstract idea." *Bilski*, 130 S. Ct. at 3231 (emphasis added). While this concept is frequently referred to as "pre-emption," it is important to remember that all patents "pre-empt" some future innovation in the sense that they preclude others from commercializing the invention without the patentee's permission. Pre-emption is only a subject matter eligibility problem when a claim pre-empts all practical uses of an abstract idea. For example, the claims in *Benson* "purported to cover *any* use of the claimed method in a general-purpose digital computer of any type." 409 U.S. at 64 (emphasis added). The claims were not allowed precisely because they pre-empted essentially all uses of the idea:

It is conceded that one may not patent an idea. But in practical effect that would be the result if the formula for converting [binary-coded decimal] numerals to pure binary

numerals were patented in this case. The mathematical formula involved here has no substantial practical application except in connection with a digital computer, which means that ... the patent would wholly pre-empt the mathematical formula and in practical effect would be a patent on the algorithm itself.

Id. at 71-72 (emphasis added). When the steps of the claim “must be taken in order to apply the [abstract idea] in question,” the claim is essentially no different from saying apply the abstract idea. *Prometheus*, 132 S.Ct. at 1299-1300. It is not the breadth or narrowness of the abstract idea that is relevant, but whether the claim covers every practical application of that abstract idea.¹ As noted at the outset, whether a claim preempts “too much” will often require claim construction and factual inquiries.

And, the Supreme Court has stated that, even if a claim does not wholly pre-empt an abstract idea, it still will not be limited meaningfully if it contains only insignificant or token pre- or post-solution activity—such as identifying a relevant audience, a category of

¹ The pre-emption analysis must also recognize that the Patent Act does not halt or impede academic research, without commercial ends, to test, confirm, or improve a patented invention. See *Sawin v. Guild*, 21 F. Cas. 554, 555 (C.C.D.Mass.1813) (No. 12,391) (Story, J.) (infringement does not occur when the invention is used “for the mere purpose of philosophical experiment, or to ascertain the verity and exactness of the specification”). Further, *Morse* shows that a claim is not “abstract” merely because it is broad, because the “hot air” claims were broad and covered many “mechanical arrangements” but yet found patent eligible.

use, field of use, or technological environment. See *Prometheus*, 132 S. Ct. at 1297-98, 1300-01; *Bilski*, 130 S. Ct. at 3230-31; *Diehr*, 450 U.S. at 191-92 & n.14; *Parker v. Flook*, 437 U.S. 584, 595 n.18, 98 S. Ct. 2522, 57 L. Ed. 2d 451 (1978). Again, these may involve factual inquiries.

Finally, the Supreme Court has stated that a claim is not meaningfully limited if its purported limitations provide no real direction, cover all possible ways to achieve the provided result, or are overly-generalized. See *Prometheus*, 132 S. Ct. at 1300 (“[S]imply appending conventional steps, specified at a high level of generality, to laws of nature, natural phenomena, and abstract ideas cannot make those laws, phenomena, and ideas patentable.”); *Fort Props.*, 671 F.3d at 1323 (“Such a broad and general limitation does not impose meaningful limits on the claim’s scope.” (internal quotation marks omitted)). For example, in *Prometheus*, “the ‘determining’ step tells the doctor to determine the level of the relevant metabolites in the blood, through whatever process the doctor or the laboratory wishes to use.” 132 S. Ct. at 1297. *Diehr* explained that the application in *Flook* “did not purport to explain how these other variables were to be determined, nor did it purport to contain any disclosure relating to the chemical processes at work, the monitoring of process variables, or the means of setting off an alarm or adjusting an alarm system,” and that “[a]ll that it provides is a formula for computing an updated alarm limit.” *Diehr*, 450 U.S. at 186-87 (footnote omitted) (internal quotation marks omitted).

Just as the Supreme Court has indicated when a claim likely should not be deemed meaningfully limited, it has also given examples of meaningful limitations

which likely remove claims from the scope of the Court's judicially created exceptions to § 101. Thus, a claim is meaningfully limited if it requires a particular machine implementing a process or a particular transformation of matter. *See Bilski*, 130 S. Ct. at 3227 (“This Court’s precedents establish that the machine-or-transformation test is a useful and important clue ... for determining whether some claimed inventions are processes under § 101.”); *see also Prometheus*, 132 S.Ct. at 1302-03; *Diehr*, 450 U.S. at 184, 192. A claim also will be limited meaningfully when, in addition to the abstract idea, the claim recites added limitations which are essential to the invention. In those instances, the added limitations do more than recite pre- or post-solution activity, they are central to the solution itself. And, in such circumstances, the abstract idea is not wholly pre-empted; it is only preempted when practiced in conjunction with the other necessary elements of the claimed invention. *See Diehr*, 450 U.S. at 187 (“[T]he respondents here do not seek to patent a mathematical formula. Instead, they seek patent protection for a process of curing synthetic rubber. Their process admittedly employs a well-known mathematical equation, but they do not seek to preempt the use of that equation. Rather, they seek only to foreclose from others the use of that equation in conjunction with all of the other steps in their claimed process.”); *see also Prometheus*, 132 S. Ct. at 1298-99 (discussing *Diehr*, 450 U.S. 175, 101 S. Ct. 1048, 67 L. Ed. 2d 155).

In specifying what the scope of the abstract idea exception to patent eligibility is, it is also important to specify what the analysis is *not*. *Flook* suggested that an abstract idea is to be “treated as though it were a

familiar part of the prior art.” 437 U.S. at 591-92. *Prometheus* used the language of “inventive concept” to describe the “other elements or a combination of elements ... sufficient to ensure that the patent in practice amounts to significantly more than a patent upon the natural law itself” and explain that purported limitations must be more than “routine” or “conventional” to confer patent eligibility. 132 S. Ct. at 1294, 1298-99. While these inquiries do require an understanding of what existed in the ken of those skilled in the art during the relevant time frame, principles of patent eligibility must not be conflated with those of validity, however.

The Supreme Court repeatedly has cautioned against conflating the analysis of the conditions of patentability in the Patent Act with inquiries into patent eligibility. See *Diehr*, 450 U.S. at 190 (“The question therefore of whether a particular invention is novel is wholly apart from whether the invention falls into a category of statutory subject matter.” (internal quotation marks omitted)); see also *Prometheus*, 132 S. Ct. at 1304 (recognizing that “to shift the patent-eligibility inquiry entirely to [§§ 102, 103, and 112] risks creating significantly greater legal uncertainty, while assuming that those sections can do work that they are not equipped to do”). Because a new combination of old steps is patentable, as is a new process using an old machine or composition, subject matter eligibility must exist even if it was obvious to use the old steps with the new machine or composition. Otherwise the eligibility analysis ignores the text of §§ 101 and 100(b), and reads § 103 out of the Patent Act.

In this regard, the Supreme Court’s reference to “inventiveness” in *Prometheus* can be read as

shorthand for its inquiry into whether implementing the abstract idea in the context of the claimed invention inherently requires the recited steps. Thus, in *Prometheus*, the Supreme Court recognized that the additional steps were those that *anyone* wanting to use the natural law would *necessarily* use. See *Prometheus*, 132 S. Ct. at 1298. If, to implement the abstract concept, one *must* perform the additional step, or the step is a routine and conventional aspect of the abstract idea, then the step merely separately restates an element of the abstract idea, and thus does not further limit the abstract concept to a practical application. *Id.* (“Anyone who wants to make use of these laws must first administer a thiopurine drug and measure the resulting metabolite concentrations, and so the combination amounts to nothing significantly more than an instruction to the doctor to apply the applicable laws when treating their patients.”)

C.

There are also additional guideposts specific to computer-implemented inventions. When assessing computer implemented claims, while the mere reference to a general purpose computer will not save a method claim from being deemed too abstract to be patent eligible, the fact that a claim is limited by a tie to a computer is an important indication of patent eligibility. See *Bilski*, 130 S. Ct. at 3227. This tie to a machine moves it farther away from a claim to the abstract idea itself. Moreover, that same tie makes it less likely that the claims will pre-empt all practical applications of the idea.

This inquiry focuses on whether the claims tie the otherwise abstract idea to a *specific way* of doing something with a computer, or a *specific computer* for

doing something; if so, they likely will be patent eligible. On the other hand, claims directed to *nothing more than the idea* of doing that thing on a computer are likely to face larger problems. While no particular type of limitation is necessary, meaningful limitations may include the computer being part of the solution, being integral to the performance of the method, or containing an improvement in computer technology. *See SiRF Tech., Inc. v. Int'l Trade Comm'n*, 601 F.3d 1319, 1332-33 (Fed. Cir. 2010) (noting that “a machine,” a GPS receiver, was “integral to each of the claims at issue” and “place[d] a meaningful limit on the scope of the claims”). A special purpose computer, *i.e.*, a new machine, specially designed to implement a process may be sufficient. *See Alappat*, 33 F.3d at 1544 (“Although many, or arguably even all, of the means elements recited in claim 15 represent circuitry elements that perform mathematical calculations, which is essentially true of all digital electrical circuits, the claimed invention as a whole is directed to a combination of interrelated elements which combine to form a machine for converting discrete waveform data samples into anti-aliased pixel illumination intensity data to be displayed on a display means. This is not a disembodied mathematical concept which may be characterized as an ‘abstract idea,’ but rather a specific machine to produce a useful, concrete, and tangible result.” (footnotes omitted)); *see also id.* at 1545 (“We have held that such programming creates a new machine, because a general purpose computer in effect becomes a special purpose computer once it is programmed to perform particular functions pursuant to instructions from program software.”).

At bottom, with a claim tied to a computer in a

specific way, such that the computer plays a meaningful role in the performance of the claimed invention, it is as a matter of fact not likely to pre-empt virtually all uses of an underlying abstract idea, leaving the invention patent eligible. “[I]nventions with specific applications or improvements to technologies in the marketplace are not likely to be so abstract that they override the statutory language and framework of the Patent Act.” *Research Corp.*, 627 F.3d at 869.

With this background, the court turns to the asserted claims here.

VI.

The district court did not construe the claims in accordance with this court’s precedent. Instead, it held that there was no “reasonable construction” that would “bring the patent within patentable subject matter.” A. 6. The district court erred in requiring the patentee to come forward with a construction that would show the claims *were* eligible. That is presumed. In this procedural posture, the district court should either have construed the claims in accordance with *Markman*, required the defendant to establish that the only plausible construction was one that, by clear and convincing evidence rendered the subject matter ineligible (with no factual inquiries), or adopted a construction most favorable to the patentee. For purposes of this appeal, this court adopts the latter approach. It may be that formal claim construction will still be required to determine the merits of eligibility.

The district court held the asserted claim to be ineligible because it is “abstract.” In this procedural posture, the complaint and the patent must by themselves show clear and convincing evidence that

the claim is not directed to an application of an abstract idea, but to a disembodied abstract idea itself. *See Diehr*, 450 U.S. at 187; *Parker*, 437 U.S. at 591; *Gottschalk*, 409 U.S. at 67. After all, unlike the Copyright Act which divides ideas from expression, the Patent Act covers and protects any new and useful technical advance, including applied ideas.

The claimed invention is a method for monetizing and distributing copyrighted products over the Internet. As a method, it easily satisfies § 100's definition of "process" and thus falls within a § 101 category of patent-eligible subject matter. Thus, this court focuses on whether the claim is meaningfully limited to something less than an abstract idea that pre-empts use of an abstract concept.

The parties proceed on the assumption that the mere idea that advertising can be used as a form of currency is abstract, just as the vague, unapplied concept of hedging proved patent-ineligible in *Bilski*. However, the '545 patent does not simply claim the age-old idea that advertising can serve as currency. Instead, for the following reasons, the court holds that the district court erred in holding that the '545 patent does not claim a practical application of this concept.²

² When assessing the abstract idea exception, the § 101 inquiry is a two-step one: first, whether the claim involves an intangible abstract idea; and if so, whether meaningful limitations in the claim make it clear that the claim is not to the abstract idea itself, but to a nonroutine and specific application of that idea. Because the parties here focus only on the second step, we do as well. We note, however, that it is arguable that we are not even dealing with an intangible abstraction in the first instance; the claims relate to things that people do, not to mere mental steps.

The '545 patent seeks to remedy problems with prior art banner advertising over the Internet, such as declining click-through rates, by introducing a method of product distribution that forces consumers to view and possibly even interact with advertisements before permitting access to the desired media product. '545 patent col. 2, ll.14-18. By its terms, the claimed invention purports to improve existing technology in the marketplace. By its terms, the claimed invention invokes computers and applications of computer technology.

Specifically, the '545 patent claims a particular internet and computer-based method for monetizing copyrighted products, consisting of the following steps: (1) receiving media products from a copyright holder, (2) selecting an advertisement to be associated with each media product, (3) providing said media products for sale on an Internet website, (4) restricting general public access to the media products, (5) offering free access to said media products on the condition that the consumer view the advertising, (6) receiving a request from a consumer to view the advertising, (7) facilitating the display of advertising and any required interaction with the advertising, (8) allowing the consumer access to the associated media product after such display and interaction, if any, (9) recording this transaction in an activity log, and (10) receiving payment from the advertiser. '545 patent col. 8, ll. 5-48. This court does not need the record of a formal claim construction to see that many of these steps require intricate and

Because the district court did not enter judgment on that ground and the parties do not brief it, we decline to address this alternative ground upon which this matter might be resolved.

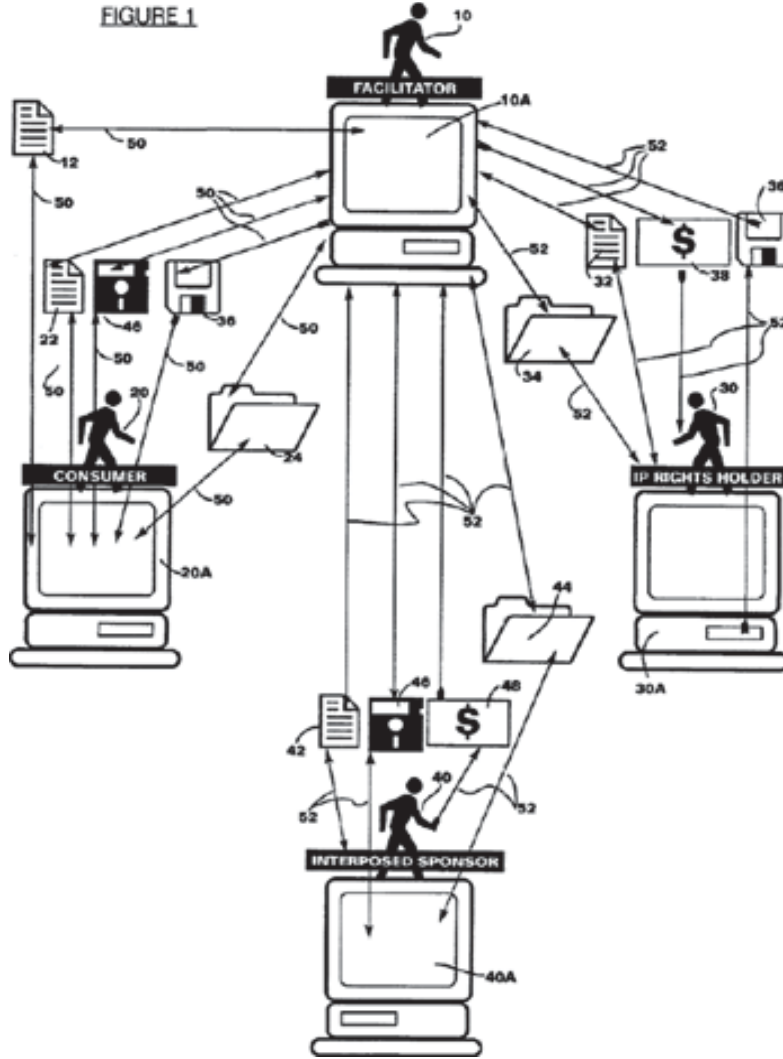
complex computer programming.

Even at this general level, it wrenches meaning from the word to label the claimed invention “abstract.” The claim does not cover the use of advertising as currency disassociated with any specific application of that activity. It was error for the district court to strip away these limitations and instead imagine some “core” of the invention. A. 6.

Further, and even without formal claim construction, it is clear that several steps plainly require that the method be performed through computers, on the internet, and in a cyber-market environment. One clear example is the third step, “providing said media products for sale on an Internet website.” *Id.* col. 8, ll. 20-21. And, of course, if the products are offered for sale on the Internet, they must be “restricted”—step four—by complex computer programming as well.

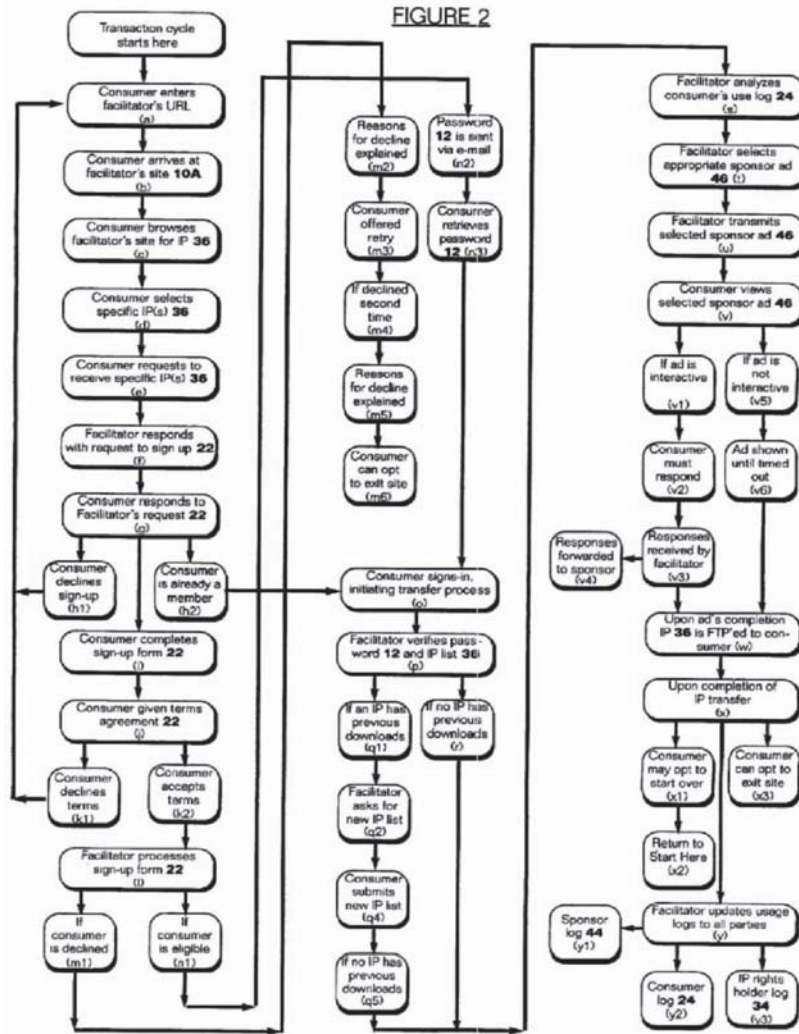
In addition, Figure 1, alone, demonstrates that the claim is not to some disembodied abstract idea but is instead a specific application of a method implemented by several computer systems, operating in tandem, over a communications network:

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Almost all of the steps in this process, as explained in the flow chart of Figure 2, are tied to computer implementation:

FIGURE 2



Viewing the subject matter as a whole, the invention involves an extensive computer interface. Unlike *Morse*, the claims are not made without regard to a particular process. Likewise, it does not say “sell advertising using a computer,” and so there is no risk of preempting all forms of advertising, let alone advertising on the Internet. Further, the record at this stage shows no evidence that the recited steps are all token pre- or post-solution steps. Finally, the claim appears far from over generalized, with eleven separate and specific steps with many limitations and sub-steps in each category. The district court improperly made a subjective evaluation that these limitations did not meaningfully limit the “abstract idea at the core” of the claims. A. 6.

Having said that, this court does not define the level of programming complexity required before a computer-implemented method can be patent-eligible. Nor does this court hold that use of an Internet website to practice such a method is either necessary or sufficient in every case to satisfy § 101. This court simply holds the claims in this case to be patent-eligible, in this posture, in part because of these factors.

In this context, this court examines as well the contention that the software programming necessary to facilitate the invention deserves no patent protection or amounts to abstract subject matter or, in the confusing terminology of machines and physical transformations, fails to satisfy the “particular machine” requirement. This court confronted that contention nearly two decades ago in *In re Alappat*, 33 F.3d 1526 (Fed. Cir.1994) (en banc). At that time, this court observed that “programming creates a new

machine, because a general purpose computer in effect becomes a special purpose computer once it is programmed to perform particular functions pursuant to instructions from program software.” *Id.* at 1545. As computer scientists understand:

[T]he inventor can describe the invention in terms of a dedicated circuit or a process that emulates that circuit. Indeed, the line of demarcation between a dedicated circuit and a computer algorithm accomplishing the identical task is frequently blurred and is becoming increasingly so as the technology develops. In this field, a software process is often interchangeable with a hardware circuit.

Id. at 1583 (Rader, J., concurring). In other words, a programmed computer contains circuitry unique to that computer. That “new machine” could be claimed in terms of a complex array of hardware circuits, or more efficiently, in terms of the programming that facilitates a unique function. With the digital computer, considered by some the greatest invention of the twentieth century, as a vital invention, both this court and the Patent Office have long acknowledged that “improvements thereof” through interchangeable software or hardware enhancements deserve patent protection. Far from abstract, advances in computer technology—both hardware and software—drive innovation in every area of scientific and technical endeavor.

The court also notes that the claims in this case are not highly generalized. Instead, the ten specific steps in the claim limit any abstract concept within the scope of the invention. Further, common sense alone establishes that these steps are not inherent in the idea

of monetizing advertising. There are myriad ways to accomplish that abstract concept that do not infringe these claims.

This court understands that the broadly claimed method in the '545 patent does not specify a particular mechanism for delivering media content to the consumer (*i.e.*, FTP downloads, email, or real-time streaming). This breadth and lack of specificity does not render the claimed subject matter impermissibly abstract. Assuming the patent provides sufficient disclosure to enable a person of ordinary skill in the art to practice the invention and to satisfy the written description requirement, the disclosure need not detail the particular instrumentalities for each step in the process.

That a process may be patentable, irrespective of the particular form of the instrumentalities used, cannot be disputed. If one of the steps of a process be that a certain substance is to be reduced to a powder, it may not be at all material what instrument or machinery is used to effect that object, whether a hammer, a pestle and mortar, or a mill.

Benson, 409 U.S. at 69-70 (quoting *Cochrane v. Deener*, 94 U.S. 780, 787-88, 24 L. Ed. 139, 1877 Dec. Comm'r Pat. 242 (1876)). Moreover, written description and enablement are conditions for patentability that Title 35 sets “wholly apart from whether the invention falls into a category of statutory subject matter.” *Diehr*, 450 U.S. at 190 (quoting *In re Bergy*, 596 F.2d 952, 961 (C.C.P.A. 1979)). The “coarse eligibility filter” of § 101 is not the statutory tool to address concerns about vagueness, indefinite disclosure, or lack of enablement, as these infirmities are expressly addressed by § 112.

See 35 U.S.C. § 112; *see also Research Corp.*, 627 F.3d at 869 (“In § 112, the Patent Act provides powerful tools to weed out claims that may present a vague or indefinite disclosure of the invention.”).

Finally, the ’545 patent does not claim a mathematical algorithm, a series of purely mental steps, or any similarly abstract concept. It claims a particular method for collecting revenue from the distribution of media products over the Internet. In a recent case, this court discerned that an invention claimed an “unpatentable mental process.” *CyberSource Corp. v. Retail Decisions, Inc.*, 654 F.3d 1366, 1373 (Fed. Cir. 2011). Unlike the claims in *CyberSource*, the claims here require, among other things, controlled interaction with a consumer over an Internet website, something far removed from *purely* mental steps.

In sum, as a practical application of the general concept of advertising as currency and an improvement to prior art technology, the claimed invention is not “so manifestly abstract as to override the statutory language of section 101.” *Research Corp.*, 627 F.3d at 869. Accordingly, this court reverses the district court’s dismissal of Ultramercial’s patent claims for lack of subject matter eligibility and remands for further proceedings. This decision does not opine at all on the patentability of the claimed invention under the substantive criteria set forth in §§ 102, 103, and 112.

REVERSED AND REMANDED
CONCUR BY: LOURIE

LOURIE, *Circuit Judge*, concurring.

I concur in the result reached by the majority, but I write separately because I believe that we should concisely and faithfully follow the Supreme Court’s

most recent guidance regarding patent eligibility in *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 132 S.Ct. 1289, 182 L. Ed. 2d 321 (2012), and should track the plurality opinion of five judges from this court in *CLS Bank International v. Alice Corp.*, F.3d , 2013 U.S. App. LEXIS 9493, 2013 WL 1920941, at *1-20 (Fed. Cir. May 10, 2013) (Lourie, Dyk, Prost, Reyna, & Wallach, JJ., plurality opinion). It is our obligation to attempt to follow the Supreme Court's guidance in *Mayo* rather than to set forth our own independent views, however valid we may consider them to be. Indeed, this appeal was specifically vacated by the Supreme Court and remanded for further consideration in light of *Mayo*. *WildTangent, Inc. v. Ultramercial, LLC*, 132 S.Ct. 2431, 182 L.Ed.2d 1059 (2012).

The claims at issue in this appeal are method claims, not machine claims, and both *Mayo* and *CLS Bank* dealt squarely with the issue of patent eligibility of method claims. The plurality opinion in *CLS Bank* identified a two-step process, derived from *Mayo*, for analyzing patent eligibility under § 101. First, a court must identify “whether the claimed invention fits within one of the four statutory classes set out in § 101.” *CLS Bank*, 2013 U.S. App. LEXIS 9493, 2013 WL 1920941, at *9. Second, one must assess whether any of the judicial exceptions to subject-matter eligibility apply, including whether the claims are to patent-ineligible abstract ideas. *Id.*

In the case of abstractness, as discussed in *CLS Bank*, we must determine whether the claim poses “any risk of preempting an abstract idea.” *Id.* To do so we must first “identify and define whatever fundamental concept appears wrapped up in the claim”;

a claim construction may be helpful in this analysis. *Id.* Then, proceeding with the preemption analysis, the balance of the claim is evaluated to determine whether “additional substantive limitations ... narrow, confine, or otherwise tie down the claim so that, in practical terms, it does not cover the full abstract idea itself.” 2013 U.S. App. LEXIS 9493, [WL] at *10 (citing Mayo, 132 S.Ct. at 1300; *Bilski v. Kappos*, 130 S.Ct. 3218, 3231, 177 L. Ed. 2d 792 (2010); *Diamond v. Diehr*, 450 U.S. 175, 187, 101 S. Ct. 1048, 67 L. Ed. 2d 155 (1981)). Following this procedure, we are then ready to evaluate the claims at issue in this case.

I agree with the majority that no formal claim construction is needed to interpret the claims at this stage. *See Majority Op.* at 27. As the majority correctly notes, the '545 patent “claims a particular method for collecting revenue from the distribution of media products over the Internet” and, as a process, “falls within a category of patent-eligible subject matter.” *Majority Op.* at 25-26. The abstract idea at the heart of the '545 patent, which the district court properly identified, is “us[ing] advertising as an exchange or currency.” *Ultramercial, LLC v. Hulu, LLC*, No. CV 09-06918 RGK, 2010 U.S. Dist. LEXIS 93453, 2010 WL 3360098, at *6 (C.D. Cal. Aug.13, 2010). The '545 patent claims, however, require more than just that abstract idea as part of the claimed method.

The additional claim limitations reciting how that idea is implemented “narrow, confine, or otherwise tie down the claim so that, in practical terms, it does not cover the full abstract idea itself.” *CLS Bank*, 2013 U.S. App. LEXIS 9493, 2013 WL 1920941, at *10. While a computer or complex computer program, as discussed by the majority opinion, may be necessary to

perform the method, it is not what the claim specifically requires and thus should not be the focus of the analysis. Likewise, although the number of claim limitations is also not an indication of patent-eligibility, unlike the method claims in *CLS Bank*, in my view, the added limitations in these claims represent significantly more than the underlying abstract idea of using advertising as an exchange or currency and, as a consequence, do not preempt the use of that idea in all fields. *See CLS Bank*, 2013 U.S. App. LEXIS 9493, 2013 WL 1920941, at *15. Thus, under the *CLS Bank* plurality analysis, I agree with the majority that the district court erred in dismissing Ultramercial's claims for lack of subject matter eligibility under § 101 due to abstractness.

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UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

ULTRAMERCIAL, LLC and Ultramercial, Inc.,
Plaintiffs–Appellants,

v.

HULU, LLC, Defendant,

and

WildTangent, Inc., Defendant–Appellee.

No. 2010-1544

Sept. 15, 2011.

657 F.3d 1323

Before RADER, Chief Judge, LOURIE and
O’MALLEY, Circuit Judges.

RADER, Chief Judge.

The United States District Court for the Central District of California dismissed Ultramercial, LLC and Ultramercial, Inc.’s (collectively, “Ultramercial”) patent infringement claims, finding that U.S. Patent No. 7,346,545 (“the ’545 patent”) does not claim patent-eligible subject matter. Because the ’545 patent claims a “process” within the language and meaning of 35 U.S.C. § 101, this court reverses and remands.

I

The ’545 patent claims a method for distributing copyrighted products (e.g., songs, movies, books) over the Internet where the consumer receives a copyrighted product for free in exchange for viewing an advertisement, and the advertiser pays for the copyrighted content. Claim 1 of the ’545 patent reads:

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A method for distribution of products over the Internet via a facilitator, said method comprising the steps of:

- a first step of receiving, from a content provider, media products that are covered by intellectual property rights protection and are available for purchase, wherein each said media product being comprised of at least one of text data, music data, and video data;
- a second step of selecting a sponsor message to be associated with the media product, said sponsor message being selected from a plurality of sponsor messages, said second step including accessing an activity log to verify that the total number of times which the sponsor message has been previously presented is less than the number of transaction cycles contracted by the sponsor of the sponsor message;
- a third step of providing the media product for sale at an Internet website;
- a fourth step of restricting general public access to said media product;
- a fifth step of offering to a consumer access to the media product without charge to the consumer on the precondition that the consumer views the sponsor message;
- a sixth step of receiving from the consumer a request to view the sponsor message, wherein the consumer submits said request in response to being offered access to the media product;

- a seventh step of, in response to receiving the request from the consumer, facilitating the display of a sponsor message to the consumer;
- an eighth step of, if the sponsor message is not an interactive message, allowing said consumer access to said media product after said step of facilitating the display of said sponsor message;
- a ninth step of, if the sponsor message is an interactive message, presenting at least one query to the consumer and allowing said consumer access to said media product after receiving a response to said at least one query;
- a tenth step of recording the transaction event to the activity log, said tenth step including updating the total number of times the sponsor message has been presented; and
- an eleventh step of receiving payment from the sponsor of the sponsor message displayed.

'545 patent col.8 ll.5-48.

Ultramercial filed suit against Hulu, LLC ("Hulu"), YouTube, LLC ("YouTube"), and WildTangent, Inc. ("WildTangent"), alleging infringement of the '545 patent. Hulu and YouTube have been dismissed from the case. WildTangent filed a motion to dismiss for failure to state a claim, arguing that the '545 patent did not claim patent-eligible subject matter. The district court granted WildTangent's motion to dismiss. Ultramercial appeals. This court has jurisdiction under 28 U.S.C. § 1295(a)(1).

This court reviews a district court's dismissal for failure to state a claim without deference. *Gillig v. Nike, Inc.*, 602 F.3d 1354, 1358 (Fed. Cir. 2010). This

court also reviews determinations regarding patent-eligible subject matter under 35 U.S.C. § 101 without deference. *In re Ferguson*, 558 F.3d 1359, 1363 (Fed.Cir.2009).

II

The district court dismissed Ultramercial’s claims for failure to claim statutory subject matter without formally construing the claims. This court has never set forth a bright line rule requiring district courts to construe claims before determining subject matter eligibility. Indeed, because eligibility is a “coarse” gauge of the suitability of broad subject matter categories for patent protection, *Research Corp. Techs., Inc. v. Microsoft Corp.*, 627 F.3d 859, 869 (Fed.Cir.2010), claim construction may not always be necessary for a § 101 analysis. *See, e.g., Bilski v. Kappos*, —U.S.—, 130 S. Ct. 3218, 3231, 177 L.Ed.2d 792 (2010) (finding subject matter ineligible for patent protection without claim construction). On many occasions, however, a definition of the invention via claim construction can clarify the basic character of the subject matter of the invention. Thus, claim meaning may clarify the actual subject matter at stake in the invention and can enlighten, or even answer, questions about subject matter abstractness. In this case, the subject matter at stake and its eligibility does not require claim construction.

III

35 U.S.C. § 101 sets forth the categories of subject matter that are eligible for patent protection: “[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” (emphasis added). In *Bilski*, the Supreme Court explained that “[i]n choosing such expansive terms modified by the comprehensive ‘any,’ Congress plainly contemplated that the patent laws would be given wide scope.” 130 S. Ct. at 3225 (quoting *Diamond v. Chakrabarty*, 447 U.S. 303, 308, 100 S.Ct. 2204, 65 L.Ed.2d 144 (1980)). After all, the purpose of the Patent Act is to encourage innovation, and the use of broadly inclusive categories of statutory subject matter ensures that “ingenuity . . . receive[s] a liberal encouragement.” *Chakrabarty*, 447 U.S. at 308, 100 S.Ct. 2204.

More importantly, as § 101 itself expresses, subject matter eligibility is merely a threshold check; claim patentability ultimately depends on “the conditions and requirements of this title,” such as novelty, non-obviousness, and adequate disclosure. 35 U.S.C. § 101; see *Classen Immunotherapies, Inc. v. Biogen IDEC*, 659 F.3d 1057, 1064 (Fed.Cir.2011) (pointing out the difference between “the threshold inquiry of patent-eligibility, and the substantive conditions of patentability”). By directing attention to these substantive criteria for patentability, the language of § 101 makes clear that the categories of patent-eligible subject matter are no more than a “coarse eligibility filter.” *Research Corp.*, 627 F.3d at 869. In other words, the expansive categories—process, machine, article of manufacture, and composition of matter—are certainly not substitutes for the substantive patentability requirements set forth in § 102, § 103, and § 112 and invoked expressly by § 101 itself. Moreover, title 35 does not list a single ineligible category, suggesting that any new, non-obvious, and fully

disclosed technical advance is eligible for protection, subject to the following limited judicially created exceptions.

In line with the broadly permissive nature of § 101's subject matter eligibility principles, judicial case law has created only three categories of subject matter outside the eligibility bounds of § 101—laws of nature, physical phenomena, and abstract ideas. *Bilski*, 130 S.Ct. at 3225. Indeed, laws of nature and physical phenomena cannot be invented. Abstractness, however, has presented a different set of interpretive problems, particularly for the § 101 “process” category. Actually, the term “process” has a statutory definition that, again, admits of no express subject matter limitation: a title 35 “process” is a “process, art or method, and includes a new use of a known process, machine, manufacture, composition of matter, or material.” 35 U.S.C. § 100(b). Indeed, the Supreme Court recently examined this definition and found that the ordinary, contemporary, common meaning of “method” may include even methods of doing business. *See Bilski*, 130 S.Ct. at 3228. Accordingly, the Court refused to deem business methods ineligible for patent protection and cautioned against “read[ing] into the patent laws limitations and conditions which the legislature has not expressed.” *Id.* at 3226 (quoting *Diamond v. Diehr*, 450 U.S. 175, 182, 101 S.Ct. 1048, 67 L.Ed.2d 155 (1981)). And this court detects no limitations or conditions on subject matter eligibility expressed in statutory language. *See, e.g., Ass'n for Molecular Pathology v. U.S. Patent & Trademark Office*, 653 F.3d 1329, 1348 (Fed.Cir.2011) (patent-ineligible categories of subject matter are “judicially created exceptions”); *Prometheus Labs., Inc. v. Mayo*

Collaborative Servs., 628 F.3d 1347, 1353 (Fed.Cir.2010), *cert. granted*, —U.S.—, 130 S.Ct. 3543, 177 L.Ed.2d 1120 (2010) (patent-ineligible categories are “not compelled by the statutory text”); *see also Bilski*, 130 S.Ct. at 3225 (Supreme Court acknowledging that judge-created “exceptions are not required by the statutory text”).

In an effort to grapple with the non-statutory “abstractness” limit, this court at one point set forth a machine-or-transformation test as the exclusive metric for determining the subject matter eligibility of processes. *In re Bilski*, 545 F.3d 943, 956 (Fed.Cir.2008), *aff’d on other grounds, Bilski*, 130 S.Ct. 3218. The Supreme Court rejected this approach in *Bilski*, noting that the machine-or-transformation test is simply “a useful and important clue, an investigative tool, for determining whether *some* claimed inventions are processes under § 101” and is not “the sole test for deciding whether an invention is a patent-eligible ‘process.’” 130 S.Ct. at 3227 (emphasis added). While machine-or-transformation logic served well as a tool to evaluate the subject matter of Industrial Age processes, that test has far less application to the inventions of the Information Age. *See id.* at 3227–28 (“[I]n deciding whether previously unforeseen inventions qualify as patentable ‘processes,’ it may not make sense to require courts to confine themselves to asking the questions posed by the machine-or-transformation test. Section 101’s terms suggest that new technologies may call for new inquiries.”). Technology without anchors in physical structures and mechanical steps simply defy easy classification under the machine-or-transformation categories. As the Supreme Court suggests, mechanically applying that

physical test “risk[s] obscuring the larger object of securing patents for valuable inventions without transgressing the public domain.” *Id.* at 3228.

Both members of the Supreme Court and this court have recognized the difficulty of providing a precise formula or definition for the judge-made ineligible category of abstractness. *See id.* at 3236 (Stevens, J., concurring) (“The Court . . . [has] never provide[d] a satisfying account of what constitutes an unpatentable abstract idea.”); *Research Corp.*, 627 F.3d at 868. Because technology is ever-changing and evolves in unforeseeable ways, this court gives substantial weight to the statutory reluctance to list any new, non-obvious, and fully disclosed subject matter as beyond the reach of title 35. In sum, § 101 is a “dynamic provision designed to encompass new and unforeseen inventions.” *J.E.M. Ag Supply, Inc. v. Pioneer Hi-Bred Int’l, Inc.*, 534 U.S. 124, 135, 122 S.Ct. 593, 151 L.Ed.2d 508 (2001). With this in mind, this court does “not presume to define ‘abstract’ beyond the recognition that this disqualifying characteristic should exhibit itself so manifestly as to override the broad statutory categories of eligible subject matter and the statutory context that directs primary attention on the patentability criteria of the rest of the Patent Act.” *Research Corp.*, 627 F.3d at 868.

Although abstract principles are not eligible for patent protection, an application of an abstract idea may well be deserving of patent protection. *See Diehr*, 450 U.S. at 187, 101 S.Ct. 1048 (“an application of a law of nature or mathematical formula to a known structure or process may well be deserving of patent protection”); *Parker v. Flook*, 437 U.S. 584, 591, 98 S.Ct. 2522, 57 L.Ed.2d 451 (1978) (“While a scientific

truth, or the mathematical expression of it, is not a patentable invention, a novel and useful structure created with the aid of knowledge of scientific truth may be.”). The application of an abstract idea to a “new and useful end” is the type of invention that the Supreme Court has described as deserving of patent protection. *Gottschalk v. Benson*, 409 U.S. 63, 67, 94 S.Ct. 253, 34 L.Ed.2d 273 (1972). After all, unlike the Copyright Act which divides idea from expression, the Patent Act covers and protects any new and useful technical advance, including applied ideas.

Turning to the '545 patent, the claimed invention is a method for monetizing and distributing copyrighted products over the Internet. As a method, it satisfies § 100's definition of “process” and thus falls within a § 101 category of patent-eligible subject matter. Thus, this court focuses its inquiry on the abstractness of the subject matter claimed by the '545 patent.

“[I]nventions with specific applications or improvements to technologies in the marketplace are not likely to be so abstract that they override the statutory language and framework of the Patent Act.” *Research Corp.*, 627 F.3d at 869. The '545 patent seeks to remedy problems with prior art banner advertising, such as declining click-through rates, by introducing a method of product distribution that forces consumers to view and possibly even interact with advertisements before permitting access to the desired media product. '545 patent col.2 ll.14–18. By its terms, the claimed invention purports to improve existing technology in the marketplace. By its terms, the claimed invention invokes computers and applications of computer technology. Of course, the patentability of the '545 patent, though acknowledged by the U.S. Patent

Office, would still need to withstand challenges that the claimed invention does not advance technology (novelty), does not advance technology sufficiently to warrant patent protection (obviousness), or does not sufficiently enable, describe, and disclose the limits of the invention (adequate disclosure).

Returning to the subject matter of the '545 patent, the mere idea that advertising can be used as a form of currency is abstract, just as the vague, unapplied concept of hedging proved patent-ineligible in *Bilski*. However, the '545 patent does not simply claim the age-old idea that advertising can serve as currency. Instead the '545 patent discloses a practical application of this idea. The '545 patent claims a particular method for monetizing copyrighted products, consisting of the following steps: (1) receiving media products from a copyright holder, (2) selecting an advertisement to be associated with each media product, (3) providing said media products for sale on an Internet website, (4) restricting general public access to the media products, (5) offering free access to said media products on the condition that the consumer view the advertising, (6) receiving a request from a consumer to view the advertising, (7) facilitating the display of advertising and any required interaction with the advertising, (8) allowing the consumer access to the associated media product after such display and interaction, if any, (9) recording this transaction in an activity log, and (10) receiving payment from the advertiser. '545 patent col.8 ll.5-48. Many of these steps are likely to require intricate and complex computer programming. In addition, certain of these steps clearly require specific application to the Internet and a cyber-market environment. One clear example is the third step,

“providing said media products for sale on an Internet website.” *Id.* col.8 ll.20–21. And, of course, if the products are offered for sale on the Internet, they must be “restricted”—step four—by complex computer programming as well. Viewing the subject matter as a whole, the invention involves an extensive computer interface. This court does not define the level of programming complexity required before a computer-implemented method can be patent-eligible. Nor does this court hold that use of an Internet website to practice such a method is either necessary or sufficient in every case to satisfy § 101. This court simply find the claims here to be patent-eligible, in part because of these factors.

In this context, this court examines as well the contention that the software programming necessary to facilitate the invention deserves no patent protection or amounts to abstract subject matter or, in the confusing terminology of machines and physical transformations, fails to satisfy the “particular machine” requirement. This court confronted that contention nearly two decades ago in the en banc case of *In re Alappat*, 33 F.3d 1526 (Fed. Cir. 1994). At that time, this court observed that “programming creates a new machine, because a general purpose computer in effect becomes a special purpose computer once it is programmed to perform particular functions pursuant to instructions from program software.” *Id.* at 1545. As computer scientists understand:

the inventor can describe the invention in terms of a dedicated circuit or a process that emulates that circuit. Indeed, the line of demarcation between a dedicated circuit and a computer algorithm accomplishing the identical task is

frequently blurred and is becoming increasingly so as the technology develops. In this field, a software process is often interchangeable with a hardware circuit.

Id. at 1583 (J. Rader, concurring). In other words, a programmed computer contains circuitry unique to that computer. That “new machine” could be claimed in terms of a complex array of hardware circuits, or more efficiently, in terms of the programming that facilitates a unique function. The digital computer may be considered by some the greatest invention of the twentieth century, and both this court and the Patent Office have long acknowledged that “improvements thereof” through inter-changeable software or hardware enhancements deserve patent protection. Far from abstract, advances in computer technology—both hardware and software—drive innovation in every area of scientific and technical endeavor.

This court understands that the broadly claimed method in the ’545 patent does not specify a particular mechanism for delivering media content to the consumer (i.e., FTP downloads, email, or real-time streaming). This breadth and lack of specificity does not render the claimed subject matter impermissibly abstract. Assuming the patent provides sufficient disclosure to enable a person of ordinary skill in the art to practice the invention and to satisfy the written description requirement, the disclosure need not detail the particular instrumentalities for each step in the process.

That a process may be patentable, irrespective of the particular form of the instrumentalities used, cannot be disputed. If one of the steps of a process be that a certain substance is to be

reduced to a powder, it may not be at all material what instrument or machinery is used to effect that object, whether a hammer, a pestle and mortar, or a mill.

Benson, 409 U.S. at 69-70, 93 S.Ct. 253 (quoting *Cochrane v. Deener*, 94 U.S. 780, 787-88, 24 L.Ed. 139 (1876)). Moreover, written description and enablement are conditions for patentability that title 35 sets “wholly apart from whether the invention falls into a category of statutory subject matter.” *Diehr*, 450 U.S. at 190, 101 S.Ct. 1048 (quoting *In re Bergy*, 596 F.2d 952, 961 (C.C.P.A. 1979)). The “coarse 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. *See* 35 U.S.C. § 112; *see also Research Corp.*, 627 F.3d at 869 (“In section 112, the Patent Act provides powerful tools to weed out claims that may present a vague or indefinite disclosure of the invention.”).

Finally, the '545 patent does not claim a mathematical algorithm, a series of purely mental steps, or any similarly abstract concept. It claims a particular method for collecting revenue from the distribution of media products over the Internet. In a recent case, this court discerned that an invention claimed an “unpatentable mental process.” *CyberSource Corp. v. Retail Decisions, Inc.*, 654 F.3d 1366, 1370 (Fed.Cir.2011). The eligibility exclusion for *purely* mental steps is particularly narrow. *See Prometheus Labs.*, 628 F.3d at 1358 (noting that claims must be considered as a whole and that “the presence of mental steps [in a claim] does not detract from the patentability of [other] steps”). Unlike the claims in

CyberSource, the claims here require, among other things, controlled interaction with a consumer via an Internet website, something far removed from *purely* mental steps.

In sum, as a practical application of the general concept of advertising as currency and an improvement to prior art technology, the claimed invention is not “so manifestly abstract as to override the statutory language of section 101.” *Research Corp.*, 627 F.3d at 869. Accordingly, this court reverses the district court’s dismissal of Ultramercial’s patent claims for lack of subject matter eligibility and remands for further proceedings. This decision does not opine at all on the patentability of the claimed invention under the substantive criteria set forth in § 102, § 103, and § 112.

REVERSED AND REMANDED

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

ULTRAMERCIAL, LLC et al. v. HULU, LLC, et al.

Case No. CV 09-06918 RGK (PLAx)

August 13, 2010

2010 U.S. Dist. LEXIS 93453

The Honorable R. GARY KLAUSNER, UNITED STATES DISTRICT JUDGE.

CIVIL MINUTES – GENERAL

Proceedings: (IN CHAMBERS) Order re: Defendants' Motion to Dismiss (DE 26 and 29)

I. INTRODUCTION

This is a patent infringement suit brought by Plaintiff Ultramercial, LLC (“Plaintiff”) against Defendants Hulu, LLC and Wildtangent, Inc. (collectively, “Defendants”) for alleged infringement of U.S. Patent No. 7,346,545 (the ‘545 patent).¹ Because the Court finds that the ‘545 patent does not cover patentable subject matter, it **GRANTS** Wildtangent, Inc.’s Motion to Dismiss (DE 29). Hulu, LLC’s Motion to Dismiss (DE 26) is **DENIED as moot**.

II. BACKGROUND

The ‘545 patent claims an invention for distributing copyrighted products over the Internet (or other

¹ The Complaint originally named Youtube, LLC, as the third defendant. The parties, however, have already stipulated to Youtube, LLC’s dismissal.

networks). In particular, the '545 patent discloses a method for allowing Internet users to view copyrighted material free of charge in exchange for watching certain advertisements. A computer or a server acts as a gateway between the Internet user and the copyrighted material. An advertisement sponsor may purchase advertising space for a particular copyrighted material (a television show episode for example). Upon attempting to stream a "free" television show episode, for example, the Internet user will be presented with advertisement. The user cannot view the copyrighted material until the ad is fully displayed. The result is that the viewer gets to watch what he wants for free, and the sponsor gets to deliver its advertisement to the intended audience.

The two independent claims of the '545 patent are claims 1 and 8. Claim 1, in its entirety, discloses a number of steps that comprise the process of displaying advertisement in exchange for access to copyrighted media. The steps are 1) receiving media from content provider, 2) selecting an ad after consulting an activity log to determine how many times the ad has been played and how many more times it need be played, 3) offering media products on the Internet, 4) restricting general public access to the media, 5) offering various media to customers for free in exchange for their watching the selected ad, 6) receiving a request to view the media from the Internet user, 7) facilitating the display of the ad, 8) allowing the Internet user access to the media, 9) same as 8 but for interactive media, 10) recording the transaction in the activity log, and 11) receiving payment from sponsor for the ad.

The second independent claim (claim 8) is almost identical to claim 1. The differences between the two independent claims are not material for the purpose of this Order. The remaining (dependent) claims add more “steps” to those in the independent claims. For example, claim 2 discloses “the step of paying royalties to the content provider.” Claim 3 discloses “the step of entering into a licensing agreement with the owner of the intellectual property.” Claim 4 discloses “the step of barring the content provider from pretending to be a customer” [to make sure the content provider cannot artificially inflate the view count]. Claim 5 discloses “the step of tendering payment to the content provider.” Claim 6 discloses “the step of issuing [] a password” to the Internet user.” Claim 7 discloses “the step of verifying a submitted password.” And so on.

III. JUDICIAL STANDARD

A party may move to dismiss for failure to state a claim upon which relief can be granted under Federal Rule of Civil Procedure 12(b)(6). Fed. R. Civ. P. 12(b)(6). In deciding a Rule 12(b)(6) motion, the Court must assume that the plaintiff’s allegations are true and construe the complaint in the light most favorable to the non-moving party. *Cahill v. Liberty Mut. Ins. Co.*, 80 F.3d 336, 337-38 (9th Cir. 1996). Dismissal is appropriate only where the complaint lacks a cognizable legal theory or sufficient facts to support a cognizable legal theory. *Mendondo v. Centinela Hosp. Med. Ctr.*, 521 F.3d 1097, 1104 (9th Cir. 2008). “While a complaint attacked by a Rule 12(b)(6) motion to dismiss does not need detailed factual allegations, a plaintiff’s obligation to provide the ‘grounds’ of his ‘entitlement to relief’ requires more than labels and conclusions, and a formulaic recitation of the elements of a cause of action

will not do.” *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544, 555, 127 S. Ct. 1955, 167 L. Ed. 2d 929 (2007) (quoting *Papasan v. Allain*, 478 U.S. 265, 286, 106 S. Ct. 2832, 92 L. Ed. 2d 209 (1986)). The court need not accept as true unreasonable inferences, unwarranted deductions of fact, or conclusory legal allegations cast in the form of factual allegations. *W. Mining Council v. Watt*, 643 F.2d 618, 624 (9th Cir. 1981).

IV. DISCUSSION

Under the Patent Act of 1952, subject matter patentability is a threshold requirement. 35 U.S.C § 101. “Whoever 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.” *Id.* Recently in *Bilski v. Kappos*, ___ U.S. ___, 130 S.Ct. 3218, 3225, 177 L. Ed. 2d 792 (2010), the Supreme Court emphasized again that excluded from the patentable subject matter are “laws of nature, natural phenomena, and abstract ideas.”

Here, Defendants argue that Plaintiff’s ’545 patent does not disclose patentable subject matter. Originally, this Motion was filed before the Supreme Court handed down the decision in *Bilski*, 130 S.Ct. at 3218. In order to benefit from the Supreme Court’s guidance on the law regarding patentable subject matter and because of similarities between the case at hand and *Bilski*, this Court stayed the case until the Supreme Court issued its opinion. Thereafter the parties filed supplemental briefings, in which they each provide their account of how the Supreme Court’s decision helps their case. After having reviewed the filings and the relevant case law in full, this Court finds that the ’545 patent does

not disclose patentable subject matter. Not only does the patent fail the machine or transformation test, it claims an abstract idea. Therefore, Plaintiff's Complaint should be dismissed.

A. The '545 Patent Does Not Satisfy the Machine or Transformation Test

In *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008), the Federal Circuit held that a process is not patentable unless it is “tied to a particular machine,” or “transforms an article.” The en banc decision produced various concurring and dissenting opinions, all of which need not be discussed here. It suffices to mention that the so called “machine or transformation test,” according to the majority, was the sole test for patentability of processes, including business method and software patents. *Id.* And since the invention at issue in *Bilski*—a method for hedging investments—did not meet the test, it was held to be invalid. *Id.*

On Supreme Court review, all Justice agreed that the *Bilski* patent was not covered by patentable subject matter. 130 S.Ct at 3218. How one gets to that conclusion, however, the Justices did not agree. The majority opinion thought it too broad to categorically invalidate all patents that do not meet the machine or transformation test. *Id.* at 3226. The machine or transformation test, according to the Supreme Court, provided a “useful and important clue,” but it was not determinative in all situations. *Id.* at 3227. Instead, the inquiry should be whether the claimed invention is a “law of nature, physical phenomena,” or an “abstract idea[.]” *Id.* at 3226. Yet the Supreme Court did not offer an example of an invention that would not be tied to a machine or transform an article and still pass the subject matter test. The Court stopped at holding that

the *Bilski* patent disclosed an abstract idea—the idea of hedging investments—and therefore, regardless of the machine or transformation test, it was invalid. *Id.* at 3230-31.

It is important to note, however, that even after the Supreme Court’s decision in *Bilski*, the machine or transformation test appears to have a major screening function—albeit not perfect—that separates unpatentable ideas from patentable ones. Indeed, four of the Justices, listed on Justice Stevens’s concurring opinion, would have taken the machine or transformation test to its logical limit to hold that business methods are categorically unpatentable. *Id.* at 3257 (Stevens, J., concurring). Joining a concurring opinion, Justice Scalia, who signed on to parts of the plurality opinion as well, would not hold all business methods unpatentable, but would agree with Justice Breyer that “not [] many patentable processes lie beyond [the] reach [of the machine or transformation test].” *Id.* at 3258 (Breyer, J., concurring). In sum, at least five (and maybe all) Justices seem to agree that the machine or transformation test should retain much of its utility after the Supreme Court’s decision in *Bilski*. Therefore, even though the machine or transformation is no longer the litmus test for patentability, the Court will use it here as a key indicator of patentability.

Turning to the mechanics of the test itself, the Court notes that not every patent that recites a machine or transformation of an article passes the machine or transformation test. *Bilski*, 545 F.3d at 961. A mere recitation of a machine or transformation in the claim will not suffice because “[i]nsignificant postsolution activity will not transform an unpatentable principle into a patentable process.” *Id.*

The machine or transformation “must impose meaningful limits on the claim’s scope to impart patent-eligibility.” *Id.* (citation omitted). Below, the Court finds that the ’545 patent does not satisfy the machine or transformation test.

1. *The ’545 Patent Is Not Tied to a Machine*

A machine is a “concrete thing, consisting of parts or of certain devices and combination of devices.” *In re Ferguson*, 558 F.3d 1359, 1364 (Fed. Cir. 2009).² Yet, physical steps are not needed to allow a process claim to be patentable. *In re Bilski*, 545 F.3d at 961. As long as the invention is tied to a machine or transforms an article, it may be patentable notwithstanding its lack of physical steps. *Id.*

The two independent claims of the ’545 patent recite the steps of exchanging media for advertisement viewing. There are only three points in the ’545 patent that the parties have identified as a possible reference to a machine. The first two (“facilitator” and “Internet”) appear in the independent claims (1 and 8): “A method for distribution of products over the Internet via a facilitator.” The third appears in dependent claim 16: “The method . . . wherein media product accessed by the consumer is downloaded to a memory of a personal computer of the consumer.” The Court finds that none of the three satisfy the machine prong of the test.

² It was undisputed in *Bilski* that the machine part of the machine or transformation test was not satisfied. 545 F.3d at 962. Therefore, *Bilski* does not provide much guidance on how to apply the machine prong of the test.

Despite Plaintiff's argument, the "facilitator" recitation does not meet the machine requirement. First, there is no reason to read "facilitator" as a machine such as a computer. Indeed, the patent specification suggests the contrary: the schematics in the patent specification depict the facilitator as a person. Moreover, the '545 patent explains that the facilitator may "communicate through . . . telephony, facsimile, courier, mail or even person-to-person meeting." The specification makes it clear, therefore, that the '545 patent is not aimed at a computer-specific application; it is a broad claim to the concept of exchanging media for advertisement viewing.

Neither does the "Internet" recitation save the patent. First, this Court agrees with the District Court in the Northern District of California that held the Internet is not a machine. *CyberSource Corp. v. Retail Decisions, Inc.*, 620 F. Supp. 2d 1068 (N.D. Cal. 2009) ("[T]he Internet is an abstraction." "One can touch a computer or a network cable, but one cannot touch 'the internet.'"). In *CyberSource*, the court held that methods for "detecting fraud in credit card transaction between consumer and merchant *over the Internet* were not tied to a specific machine." *Id.* at 1077-78 (emphasis added). This Court agrees in full with the court's reasoning in *CyberSource* to the effect that the "over the Internet" recitation does not make an otherwise unpatentable idea patentable. *Id.*

Finally, the mere act of storing media on computer memory does not tie the '545 invention to a machine in any meaningful way. Since Plaintiff does not argue this point, the Court will not address it in detail. It suffices to say, however, that the argument would have been too farfetched and hence futile.

Plaintiff makes two counter arguments that need be addressed. First, Plaintiff points to many steps in the '545 patent that, according to Plaintiff, address computer-specific functions (such as issuing and verifying passwords, transmitting an ad until it is timed out, making content physically available to the consumer, etc.). (Pl. Opp., at 16.) Second, Plaintiff argues that the segments of the patent specification quoted here only says that “some communication [may] take place without a programmed machine (e.g., communication between a IP rights holder and interposed sponsor),” but “all communication between the consumer and facilitator take place utilizing a specifically-programmed computer.”³ (Pl. Opp., at 17:25-18:15.) In sum, Plaintiff argues that the '545 patent is computer-specific and not a broad invention that may be performed by a person. As a result, Plaintiff suggests that the '545 patent meets the machine prong of the test.

³ The preferred embodiment specification states in pertinent part,

In accordance with the preferred embodiment, four principals are preferably present: a facilitator, a consumer, an intellectual property (IP) rights holder, and an interposed sponsor. All of the principals preferably communicate over a telecommunications network such as the Internet, using their respective computers: facilitator's computer, consumer's computer, IP rights holder's computer 30A and interposed sponsor's computer. Three of the principals (facilitator, IP rights holder and interposed sponsor) may also communicate through a twoway communications path, which may include telephony, facsimile, courier, mail or even person-to-person meetings.

Plaintiff's argument is unavailing. There is nothing inherently computer-specific about receiving media from a content provider, choosing a sponsor for the media, selecting an ad for the sponsor, verifying the viewer's activity, assigning passwords, charging the sponsor for the advertisement, or any of the remaining steps.

Yet Plaintiff is perhaps still correct to point out that the only useful application of Plaintiff's invention is with relation to the Internet, where the facilitator is a specifically "programmed computer."⁴ That does not mean, however, that the patent claims are limited to use on a computer, or, more importantly, that they are *tied* to one. That the disclosed invention is only used on computers or computer networks cannot alone satisfy the machine test without rendering the test completely toothless.⁵ As already stated above, the machine must limit the invention in a meaningful way. One cannot circumvent the patentability test by merely limiting the use of the invention to a computer. The binary representation, one of the most fundamental concepts that has enabled digital computation as we know it today was not patentable, even though its utility was

⁴ The "programmed computer" argument has its origin in *In re Alappat*, 33 F.3d 1526 (Fed. Cir. 1994). That decision articulated the "useful, concrete, and tangible result" test for patentable subject matter, which was subsequently abrogated by the Federal Circuit in *Bilski* 545 F.3d at 959-60.

⁵ The Court is aware that software patents or other method patents that involve programmed computers have never been categorically rejected under the patentable subject matter test. *Gottschalk v. Benson*, 409 U.S. 63, 71 (1972) (declining to hold that all patents for any "program servicing a computer" are invalid under § 101).

linked to “general-purpose digital computers.” *Gottschalk v. Benson*, 409 U.S. 63, 64 (1972). Similarly in the case of the ’545 patent, the concept of advertisement-media-exchange does not become patentable simply because the patentee claims to have limited its application to the Internet or computers. Therefore, the ’545 patent fails the machine test.

2. *The ’545 Patent Does Not Transform an Article*

There can be little dispute that the ’545 patent does not transform an article. “Transformation and reduction of an article ‘to a different state or thing’ is the clue to the patentability of a process claim that does not include particular machines.” *Id.* at 70. None of the patent claims disclose a transformation. Plaintiff points to claim 16, which recites, “The method . . . wherein media product accessed by the consumer is downloaded to a memory of a personal computer of the consumer.” Yet the mere transfer of data from one memory disk on one computer to another memory space in a second computer is not “transformation of article” under § 101. And the parties have not pointed out a case that held otherwise. That is not surprising: the nature of the computer memory does not vary based on what is stored in it. And even if storing content on a computer memory constituted transforming an article, Plaintiff’s argument would still fail because such “transformation” is merely incidental to the ’545 patent claims. What Plaintiff claims is the process of trading viewing of the advertisements for free access to media. That the media may be transferred from one computer (or server) to another is merely incidental. *Cf. Diamond v. Diehr*, 450 U.S. 175 (1981) (holding that the method of using temperature

readings from a rubber press and inputting the reading in a well-known mathematical formula to determine accurately the cure-time was patentable because the process was meaningfully limited to transformation of an article). Unlike in *Diehr*, the '545 patent does not disclose a method for transforming an article, or the transformation disclosed is not a meaningful limitation to the claimed invention. Therefore, the transformation prong of the test is also not satisfied.

B. The '545 Patent Discloses an Abstract Idea

In *Bilski*, the Supreme Court held that a method for hedging investments was an abstract idea and hence unpatentable. 130 S.Ct. at 3218. Claim 1 of the *Bilski* patent simply disclosed a number of steps in a particular hedging method: 1) trading commodity with a buyer at a price based on historical averages and the buyer's risk position, 2) finding buyers that have another type of risk position that counters the first buyer in step one, and 3) transacting with the second consumer in a way to balance (hedge) the risk of the transaction. *Id.* at 3223-24. The patent then went on to disclose the application of this method in trading energy commodities. *Id.* at 3224.

In rejecting the patent, the Supreme Court first noted that "hedging is a fundamental economic practice." *Id.* at 3231. Therefore, the core of the patent was not patentable because "allowing petitioners to patent risk hedging would pre-empt use of this approach in all fields." *Id.* Moreover, the remaining recitations did not rescue the patent because they were only "broad examples of how hedging can be used in commodities and energy markets." *Id.* Since the core of the patent was an abstract idea, and the additional

limitations did not meaningfully contain the claimed invention, the *Bilski* invention was not patentable.

The case at hand is very similar. At the core of the '545 patent is the basic idea that one can use advertisement as an exchange or currency. An Internet user can pay for copyrighted media by sitting through a sponsored message instead of paying money to download the media. This core principle, similar to the core of the *Bilski* patent, is an abstract idea. Indeed, public television channels have used the same basic idea for years to provide free (or offset the cost of) media to their viewers.⁶ At its heart, therefore, the patent does no more than disclose an abstract idea.

Also similar to the patent in *Bilski*, the added features, examples, or limitations of the '545 patent do not make it patentable. That the exchange (advertisement for media) is carried over the Internet, through a facilitator, using passwords and activity logs, does not limit the patent in a meaningful way. The patent still discloses an abstract idea garnished with accessories. If the claimed invention here were patentable, it would “preempt use of this [method] in all fields.” *Id.*

Two points need be made clear at the end. One is that the Court rejects Plaintiff's argument that this Motion should not be decided before claim construction. While the Court (and the parties) consulted the claims

⁶ The Court is cognizant of the difference between patentable subject matter and obviousness requirements. The point made here is that the core of the disclosed invention is an abstract principle similar to the hedging principle in *Bilski*; lack of novelty is not the (intended) message. Although the invention here may be obvious, that determination is not before the Court.

and the specification, there is no need to formally construe any of the claims. The patent terms are clear, and Plaintiff has not brought to the Court's attention any reasonable construction that would bring the patent within patentable subject matter. Moreover, given the lack of clarity in this area of patent law, it is perhaps even more appropriate for this Court to render its decision at the earliest stage so that the parties may benefit from the Federal Circuit's guidance on the issue sooner rather than later, if they so desire.

Second, the Court acknowledges that this case calls for the difficult task of deciphering whether the '545 invention falls under the *Bilski* or *Diehr* categories. In both, the claimed invention discloses a real-world application of a mathematical formula. In both, a well-known or basic principle is linked to its practical use. Yet in one (*Diehr*), the invention is patentable; in the other (*Bilski*), not. In deciding which one of the two categories the '545 patent fits, the Court consulted the machine or transformation test. The Court also noted that the similarities between the '545 patent and the *Bilski* patent point toward invalidity. Finally, the Court noted that the additional limitations beyond the abstract idea at the core of the '545 patent do not limit the claimed invention in a meaningful way. Therefore, the Court holds that the '545 patent does not cover patentable subject matter.

V. CONCLUSION

The Court **GRANTS** Wildtangent, Inc.'s Motion to Dismiss (DE 29). Hulu, LLC's Motion to Dismiss (DE 26) is **DENIED** as moot.

IT IS SO ORDERED.

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SUPREME COURT OF THE UNITED STATES

WILDTANGENT, INC., Petitioner,

v.

ULTRAMERCIAL, LLC, et al.

No. 11-962.

May 21, 2012.

132 S. Ct. 2431

On petition for writ of certiorari to the United States Court of Appeals for the Federal Circuit. Petition for writ of certiorari granted. Judgment vacated, and case remanded to the United States Court of Appeals for the Federal Circuit for further consideration in light of *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 566 U.S. ___, 132 S. Ct. 1289, 182 L. Ed. 2d 321 (2012).

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UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

2010-1544

ULTRAMERCIAL, LLC and ULTRAMERCIAL,
INC.,

Plaintiffs-Appellants,

v.

HULU, LLC,

Defendant,

and

WILDTANGENT, INC.,

Defendant-Appellee.

Appeal from the United States District Court for the
Central District of California in case no. 09-CV-6918,
Judge R. Gary Klausner.

ORDER

A petition for rehearing en banc having been filed
by the Appellee,* and the matter having first been
referred as a petition for rehearing to the panel that
heard the appeal, and thereafter the petition for
rehearing en banc having been referred to the circuit
judges who are in regular active service,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and
the same hereby is, DENIED and it is further

* The court granted Electronic Frontier Foundation, et al.
leave to file a brief amici curiae in support of Appellee's petition
for rehearing en banc.

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ORDERED that the petition for rehearing en banc be, and the same hereby is, DENIED.

The mandate of the court will issue on November 28, 2011.

Circuit Judge Moore did not participate in the vote.

FOR THE COURT,
s/Jan Horbaly /LB
Jan Horbaly
Clerk

Dated: 11/18/2011

cc: Lawrence M. Hadley
Darin W. Snyder, Gregory G. Garre
Julie Samuels

[File stamp omitted]

ULTRAMERCIAL V HULU, 2010-1544
(DCT - 09-CV-6918)

71a

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

2010-1544

ULTRAMERCIAL, LLC and ULTRAMERCIAL,
INC.,

Plaintiffs-Appellants,

v.

HULU, LLC,

Defendant,

and

WILDTANGENT, INC.,

Defendant-Appellee.

Appeal from the United States District Court for the
Central District of California in case no. 09-CV-6918,
Judge R. Gary Klausner.

ORDER

A petition for hearing en banc having been filed by
the Appellee,

UPON CONSIDERATION THEREOF, it is
ORDERED that the petition for rehearing be, and
the same hereby is, DENIED.

Circuit Judge Moore did not participate in the vote.

FOR THE COURT,

s/Jan Horbaly

Jan Horbaly

Clerk

Dated: 09/24/2012

cc: Lawrence M. Hadley

72a

Darin W. Snyder
Gregory G. Garre
Julie P. Samuels
Peter J. Brann
Daryl Joseffer

[File stamp omitted]

ULTRAMERCIAL V HULU, 2010-1544
(DCT - 09-CV-6918)

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U.S. CONSTITUTION
ARTICLE I

Section 8.

The Congress shall have power . . .

To promote the Progress of Science and useful Arts,
by securing for limited Times to Authors and Inventors
the exclusive Right to their respective Writings and
Discoveries;

* * *

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35 U.S.C. § 100

§ 100. Definitions

When used in this title unless the context otherwise indicates—

* * *

(b) The term “process” means process, art or method, and includes a new use of a known process, machine, manufacture, composition of matter, or material.

* * *

75a

35 U.S.C. § 101

§ 101. Inventions patentable

Whoever 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.