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Information Memo
Intellectual Property Law
September 2011

Ultramercial v. Hulu: The Federal Circuit Issues Another Decision on the Patent Eligibility of Software-Related Technology

On September 15, 2011, the Court of Appeals for the Federal Circuit issued a decision in *Ultramercial, LLC v. Hulu, LLC* holding that a patent directed to methods for Internet distribution qualified as patentable-eligible subject matter. This decision comes just a month after the Federal Circuit's decision in *CyberSource Corp. v. Retail Decisions, Inc.* holding that a software patent directed to a fraud detection method did not qualify as patent-eligible subject matter.

The *Ultramercial* and *CyberSouce* cases are of particular interest because they continue to develop the law of software patents following the Supreme Court's *Bilski* decision last year. Our previous Information Memo on *CyberSource* is available at: http://www.bsk.com/archives/detail.cfm?archive=publication&ID=1310. This Information Memo provides a brief summary of the *Ultramercial* decision.

The Central District of California

At the district court level, Ultramercial's patent was held invalid for lack of patent-eligible subject matter. The court determined that the claimed subject matter failed the "machine-or-transformation" test,[1] and that the patent claims were directed to an "abstract idea." The court characterized the abstract idea as follows: "An Internet user can pay for copyrighted media by sitting through a sponsored message instead of paying money to download the media."

The Federal Circuit

At the Federal Circuit, a three judge panel reversed, with an opinion authored by Chief Judge Rader. The court's decision began by explaining that claim construction is not always necessary to decide whether patent claims are eligible subject matter under 35 U.S.C. §101. In the case of Ultramercial's patent, the court determined that claim construction was not needed to conduct a section 101 eligibility analysis.

In reversing the district court, the Federal Circuit determined that the claims of Ultramercial's patent were not too abstract because they necessarily require enough computer hardware and software to be practiced. Because the claims were directed to a process, and were not purely mental steps in the view of the Federal Circuit panel, they were deemed to be patent-eligible subject matter.

However, even though the Ultramercial patent survived a *patent-eligibility* challenge, this does not necessarily mean that Ultramercial's invention is *patentable*. The Federal Circuit panel noted that it "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)." Patent-eligibility is one part of the much larger issue of patentability.

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1 Although the Supreme Court noted 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," it is not "the sole test for deciding whether an invention is a patent-eligible 'process.'" *Bilski v. Kappos*, 130 S. Ct. 3218, 3227 (2010).

Comparing *Cybersource*

Given the different outcomes in *Ultramercial* and *Cybersource*, the *Ultramercial* decision distinguished *Cybersource* as follows:

> In a recent case, this court discerned that an invention claimed an "unpatentable mental process." *Cybersource* . . . The eligibility exclusion for purely mental steps is particularly narrow. . . . 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.

Ultramercial's distinguishing of *Cybersource* can be best understood by the fact that computer and software concepts were more pervasive in the claims of Ultramercial's patent than Cybersource's patent. Indeed, the Federal Circuit remarked: "Many of these steps [of the Ultramercial patent] 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."

Following *Bilski*, *Ultramercial*, and *CyberSource*, it appears the critical inquiry for software-related patents is whether the claims at issue can be interpreted to be performed by entirely mental processes. In *Ultramercial*, the Federal Circuit answered this inquiry as follows: "the [Ultramercial] 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."

More to Come…

Stay tuned for future developments, as there are at least two other cases that will likely be decided by the Federal Circuit in the near future that may provide more guidance in this area of the law: *Dealertrack v. Huber* (argued on May 4th); and *Fuzzysharp Technologies Inc. v. 3D Labs, Inc.* (argued on July 7th).

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