ULTRAMERCIAL, INC. v. HULU, LLC, Appeal No. 2010-1544 (Fed. Cir. November 14, 2014). Before Lourie, Mayer and O'Malley. Appealed from C.D. Cal. (Judge Klausner).

Background:

The Federal Circuit previously held that that the district court erred in holding that Ultramercial's claims are patent-ineligible because the claims require controlled interaction with a consumer over a website, which is something far removed from purely mental steps. However, the Supreme Court vacated and reversed the Federal Circuit's decision for further consideration in light of its recent decision in *Alice Corp. v. CLS Bank International*.

Issue/Holding:

Did the district court err in holding Ultramercial's claims patent-ineligible under the judicially-created "abstract idea" exception? No, affirmed.

Discussion:

Before the Federal Circuit, Ultramercial argued that its claims are directed to a specific method of advertising and content distribution that was previously unknown and never employed on the Internet before. Ultramercial also argued that abstract ideas remain patent-eligible under §101 as long as the abstract ideas are new, not previously well known, and not routine activity. Further, Ultramercial maintained that even if the claims are directed to an abstract idea, the claims remain patent-eligible because they extend beyond generic computer implementation of that abstract idea. Hulu contended that: (i) Ultramercial's claims are directed to the abstract idea of offering free media in return for viewing advertisements, and (ii) the claims do no more than break the abstract idea into basic steps and add token extra-solution steps, and thus the claims fail to recite meaningful limitations that transform the abstract idea into patent-eligible subject matter.

The Federal Circuit applied the two-step analysis set forth in *Alice* to determine whether the claims at issue were directed to a patent-ineligible abstract idea. The Federal Circuit agreed with Hulu in that the concept embodied by the majority of the limitations describes only the abstract idea of displaying an advertisement before delivering free content. The Federal Circuit disagreed with Ultramercial's argument that the addition of novel or non-routine components to the claimed idea necessarily turns an abstraction into something concrete, and thus any novelty in implementing the abstract idea is a factor to be considered only in the second step of the *Alice* analysis.

In the second step, the Federal Circuit held that the limitations of Ultramercial's claims do not transform the abstract idea they recite into patent-eligible subject matter because the claims simply instruct the practitioner to implement the abstract idea with routine, conventional activity. The extra-solution steps of updating an activity log, requiring a request from the consumer to view the ad, restrictions on public access, and use of the Internet fail to transform the abstract idea into patent-eligible subject matter. Further, that some of the steps were not previously employed on the Internet is not enough—standing alone—to confer patent eligibility upon the claims because the Internet is a ubiquitous information-transmitting medium.

In a concurring opinion, Judge Mayer emphasized that: (i) whether claims meet the demands of §101 is a threshold question that must be addressed at the outset of litigation, (ii) no presumption of eligibility attends the §101 inquiry, and (iii) *Alice*, for all intents and purposes, sets out a technological arts test for patent eligibility.