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Federal Circuit Further Defines What Types of Software May Be Patentable

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The Court of Appeals for the Federal Circuit issued its long-awaited decision in *Ultramercial v. Hulu* and provided significant guidance regarding software patents and what types of software inventions may be eligible for patents under U.S. patent law. The case helps define the evolving area of "patentable subject matter," while it held that Ultramercial's software patent claims were directed to unpatentable subject matter.

Certain types of inventions are not eligible for patent protection under the patent laws, such as pure mathematical formulas or laws of nature. For example, Einstein's theory of relativity cannot be patented, nor could the discovery of a plant that cures an illness. These "inventions" are excluded from what is referred to as "patentable subject matter." Courts have struggled over the past 50 years to define if, and to what extent, software inventions are patentable subject matter.

The *Ultramercial* decision is one of the more elucidating software patent decisions since the Supreme Court's June 19, 2014 *Alice v. CLS Bank* decision. The Federal Circuit applied the two-part test from *Alice* and found Ultramercial's software patent claims recite unpatentable subject matter. Ruling on an appeal of a granted motion to dismiss, the Federal Circuit applied the *Alice* test, holding that software patent claims are unpatentable if they (1) recite an abstract idea; and (2) do so without claiming "something more" that transforms "the nature of the claim into a patent-eligible application." Of particular significance is that the Federal Circuit had previously held Ultramercial's claims to constitute patentable subject matter – twice. Both times, Hulu appealed to the Supreme Court but the case was subsequently remanded to the Federal Circuit.

Ultramercial's patent relates to a method of distributing copyrighted works over the Internet where the consumer watches an advertisement rather than paying to watch the copyrighted work. Addressing the first prong of the *Alice* test, the Federal Circuit held that the claimed invention was directed to an abstract idea. As the Supreme Court did in *Alice*, the Federal Circuit declined to specify what constitutes an "abstract idea," but held "[t]he process of receiving copyrighted media, selecting an ad, offering the media in exchange for watching the selected ad, displaying the ad, allowing the consumer access to the media, and receiving payment from the sponsor of the ad all describe an abstract idea, devoid of a concrete or tangible application." The Federal Circuit rejected Ultramercial's argument that a novel implementation of the abstract idea would transform the abstract idea into patentable subject matter, holding "any novelty in implementation of the idea is a factor to be considered only in the second step of the *Alice* analysis."

Turning to the second prong of the *Alice* test, the Federal Circuit applied the machine or transformation test, from the *Bilski v. Kappos* case, to determine whether Ultramercial's patent claimed "something more" that transformed "the nature of the claim into a patent-eligible application." The machine or transformation test requires that, to be eligible for a patent, the claimed invention be tied to a machine or transform an article into a different state or thing. The majority opinion held that tying the abstract idea to a general purpose computer was insufficient to satisfy the second *Alice* prong because the invention is "not tied to any particular novel machine or apparatus, only a general purpose computer." Here, the Federal Circuit provided guidance in requiring not only that the abstract idea be tied to a machine, but that the machine itself be novel.

Judge Mayer concurred with the majority opinion and offered several points of emphasis, the most compelling being that "[*Alice*], for all intents and purposes, set out a technological arts test for patent eligibility. Because the purported inventive concept in Ultramercial's asserted claims is an entrepreneurial rather than a technological one, they fall outside section 101." At the same time, he supported the procedural mechanism of using a motion to dismiss to truncate patent litigation involving patents that claim non-statutory subject matter. He also opined that "[a] rule holding that claims are impermissibly abstract if they are directed to an entrepreneurial objective, such as increasing revenue, minimizing economic risk or structuring commercial transactions, rather than a technological one,…" would comport with the decisions of the Supreme Court in *Alice* and *Bilski*. Judge Mayer's concurrence provides important clues regarding the fate of software and business method patents in the United States, and might portend that the U.S. patent system may be harmonizing further with European law. In Europe, software is unpatentable unless it offers a technical solution to a technical problem (e.g., causes a computer to work more efficiently).

In this decision, the Federal Circuit appears to have taken pains to provide guideposts for the software industry and patent practitioners as regards the bounds of patent eligible subject matter for software implemented inventions.

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