

First Post-Bilski District Court Decision Finds Internet-Implemented Process Is Not Patentable Subject Matter

One of the major unanswered questions following the U.S. Supreme Court's decision in *Bilski v. Kappos* is the extent to which lower courts will apply the rationale of the decision in assessing the patentability of computer software, Internet-enabled, and other computer-implemented processes. A recent court decision from California expressed a somewhat hard line view.

On June 28, 2010, the U.S. Supreme Court in its *Bilski v. Kappos* decision held that the "machine-or-transformation" test is a good test, but not the sole test, whether a process is considered eligible for a patent. In the machine-or-transformation test, if a process is tied to a particular machine or results in the transformation of an article from one state to another, then it is likely to be

considered patentable subject matter. The analysis whether a patent is to be granted (or is valid in litigation) can then turn to the customary tests of novelty and non-obviousness.

On August 13, 2010, District Court Judge R. Gary Klausner, of the Central District of California, ruled that the claims of U.S. Patent No. 7,346,545 ("the '545 patent") were not directed to patentable subject matter. *Ultramercial, LLC v. Hulu, LLC*, Case No. CV 090-06918 (RGK). The '545 patent, briefly summarized, related to an Internet-implemented process for distributing copyrighted products (such as television programs) over the Internet, by allowing Internet users to view copyrighted material free of charge in exchange for watching certain advertisements. A computer or server acts as a gateway between the Internet user and the copyrighted material. An advertisement sponsor may purchase advertising space for particular copyrighted material such as a particular TV show episode. The user cannot view the program until the ad is fully displayed.

In short, the patent purports to cover television over the Internet with paid advertising. Arguably, the only practical way to do that is using a computer server. However, the patent claim does not seem limited to execution via a computer server.

One cannot draw any meaningful conclusions from this case without analyzing the claims at issue, and without realizing that Judge Klausner's decision may be appealed to the Court of Appeals for the Federal Circuit. If history is any guide, the Federal Circuit will have its own view of the situation -- but it will likely take about a year for a decision.



Here is claim 1 from the '545 patent. Note that the entity taking the actions of the method (the actor) is indefinite, and in most cases could just as easily be carried out by a person as by a computer:

- 1. 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;
 - 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.

A few telling aspects of the claim seem to seal its fate. As to the machine-or transformation test, the only thing in the claim that seems clearly a machine-like is “the Internet.” The claim simply does not read like it is carried out by a machine. Note that the role of the “facilitator” in the claim is unclear -- is the facilitator a person or a machine? Note also that the claimed method could, on its face, seem to cover a person sitting at a computer and clicking on screens to make the computer display ads and programs.

Judge Klausner applied the principles expressed in the *Bilski v. Kappos* case and made several pronouncements that, in his view, compelled the conclusion that the claims did not recite patentable subject matter. First, merely because the claim recited use of the Internet did not suffice to satisfy the “machine-or-transformation” test. Second, the machine or transformation must impose meaningful limits on the claim’s scope to impart patent-eligibility -- and apparently just reciting “the Internet” as the mode of process implementation is not enough. Third, “laws of nature, natural phenomena, and abstract ideas” are excluded from being patentable subject matter.

The judge found only three points in the claims that could reference a machine: “facilitator” and “Internet” and “storing media” in a memory:

- As to the facilitator, the specification of the patent depicts the facilitator as a person, although the patent owner argued that the only logical way to implement the facilitator was a computer server.
- The term “Internet” was found to be a mere abstraction: a prior court decision (*CyberSource Corp. v. Retail Decision, Inc.*, 620 F. Supp. 1068 (N.D. Cal. 2009)) found a method for detecting credit card fraud “over the Internet” was not tied to a specific machine and Judge Klausner agreed with that reasoning.

- Finally, the act of storing media in computer memory did not tie any aspect of the process to a machine in “any meaningful way.”



The patent owner made two arguments that the Court felt it had to address:

First, most of the steps in the process were necessarily computer-specific functions such as issuing and verifying passwords, transmitting an ad until it is timed out, making the content available “over the Internet,” etc. Second, the specification of the patent stated that all communication between the facilitator and the consumer take place utilizing a specifically-programmed computer.

The judge dismissed these arguments on the ground that there was nothing computer-specific about receiving media from a content provider, choosing a sponsor for the media, selecting an ad, verifying the viewer’s activity, assigning passwords, charging the sponsor for an advertisement, etc. In other words, it was plain to the judge that the claims did not recite sufficient hardware (machine ties) to satisfy the machine tie requirement of the machine-or-transformation test.

The patent owner seemed to be arguing that because the actor for a number of the recited functions could only logically be carried out by a computer, there must be enough of a machine tie to satisfy the test. However, it is apparent that the claim language itself did not require that the functions be computer-implemented -- and only computer-implemented.

As to the transformation prong of the “machine-or-transformation test,” there is plainly nothing in the claim that even arguably amounts to any kind of transformation. The media product was merely downloaded into memory and then delivered to the consumer. Mere delivery of unaltered content is apparently not a sufficient transformation. Note that the claim perhaps could have recited transforming the consumer’s display screen with an ad prior to displaying the media, or perhaps another display type transformation. But it did not, leaving the question still unanswered whether data or computational transformations are a sufficient “article transformation” to satisfy the transformation prong of the test.

Judge Klausner followed other guidance from the Supreme Court in finding the ‘545 claims unpatentable. In addition to stating that machine-or-transformation test is not “the only test” for patentability, the Supreme Court also asserted the following principle for testing whether a process is patentable subject matter: one cannot patent an abstract idea. (The *Bilski v. Kappos* case involved a commodities hedging process that was found to be merely an abstract idea.)

Judge Klausner followed the guidance of the *Bilski* court and held that the claimed process in the *Ultramercial* case was merely directed to an abstract idea: “At the core of the ‘545 patent is the basic idea that one can use advertisement as an exchange or currency. ... This core principle, similar to the core of the *Bilski* patent, is an abstract idea. ... At its heart, therefore, the patent does no more than disclose an abstract idea.”

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What is the import of the Ultramercial case? First, this is likely the first of many cases about patentable subject matter that will be decided in the coming months and years. Second, claims of the nature in the Ultramercial case that do not recite significant machine implementation, by a specifically recited computer or other type of hardware, will likely suffer the same fate as the claims in the Bilski case.

The reasoning that the Ultramercial process was merely an abstract idea is more troubling. Presented broadly enough, almost any invention can be deemed an abstract idea. Even if a claim recites very specific detail about a machine-implemented process, a court following this reasoning might still find that the process is too abstract -- since the Bilski court did not provide any definition of what is too “abstract” to be patentable subject matter and the patent statute does not contain a definition. A workable definition of “too abstract” is yet to be forthcoming.

The inclusion of human agents or actors in a patent claim, in this writer’s view, makes it more difficult for courts and the USPTO to find patentable subject matter. The ‘545 patent recited the use of a “facilitator” without making it clear whether that facilitator was a machine or a person. Judge Klausner apparently thought that the claim was ambiguous whether the facilitator was a machine or a person -- but he did not make it clear that he would have ruled differently if the facilitator was a machine.

Those seeking patents for process-type inventions relating to computer software or network (Internet) implementation may want to consider these suggestions for the foreseeable future:

- Include detailed and specific discussion of computer-implemented elements in the patent application.
- Present claims that are detailed and specific as to the computer implementation.
- Make it clear in the claims that the actors of the functions in the invention are carried out by a machine (a computer system), not by a person.
- Provide detail in the patent application about how data is transformed, not just stored or presented.
- Describe how displays to users are transformed by the underlying computational and data processing functions.

Although none of these suggestions are a guarantee of success, until a court specifically considers these issues at a more technical level, they may be the best approach to seeking a patent.

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Since this is only a California District Court decision and not governing in other districts, what will happen next? Judge Klausner clearly recognized that he was one of the first to have a significant post-Bilski case: “[G]iven 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.” Thus, an appeal may be coming.

For now, questions remain where and how sharply a line can be drawn to decide whether a particular computer-implemented process is patentable subject matter or not. The only certainty is the notion that clear ties to machine-acted steps or clear expressions of transformation will be needed if a process claim is to survive the current test for patentable subject matter.



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