

Ultramercial V. Hulu: The Guillotine For Patent Trolls

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During the French Revolution, Joseph-Ignace Guillotin helped develop a frighteningly effective device to quickly eliminate political opponents. The guillotine is a wooden structure where a razor sharp, angled blade is raised high above the neck of a political opponent. The blade is then dropped to instantaneously separate the head from the body.

Ever since the term “patent troll” was used during the late 1990s by attorneys at Intel Corp. to describe the swarm of patent assertion entities who were demanding that Intel pay tribute for their patent rights, companies large and small have been looking for a legal guillotine to swiftly decapitate patent assertion entities and their patents. Among the most infamous of the patent trolls is Luxembourg-based ArrivalStar SA, which filed 137 new patent infringement lawsuits in 2013 over its vehicle-tracking patents. Not to be outdone, MPHJ Technology Investments sent hundreds of letters to U.S. businesses large and small demanding \$1,000 per employee for anyone who uses scanners that can send photocopies to e-mail. Thanks to the U.S. Court of Appeals for the Federal Circuit’s Nov. 14, 2014, decision in *Ultramercial Inc. v. Hulu LLC* and *Wildtangent Inc.*, the victims of patent trolls may finally be finding their legal guillotine.



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A Long Time in Coming

The Federal Circuit’s *Ultramercial* decision has been a long time in coming. Over the years, much of the frustration in fighting patent trolls has been due to the high cost and complexity of patent litigation. Even if the patent troll is asserting a weak patent, it often costs hundreds of thousands of dollars to do the prior art invalidity searches, discovery, claim construction hearings and summary judgment motions necessary to address the patent troll’s infringement claims on the merits. Knowing this, patent trolls frequently set their settlement demands at a figure which is less than the cost to litigate on the merits while still providing a substantial payday. In many cases, this is between \$50,000 and \$300,000.

Responding to the growing rage against patent trolls, Congress and the courts have taken incremental steps to address the problem. In 2011, Congress passed and President Obama signed into law the America Invents Act. Among other things, the AIA created more ways for the validity of issued patents to be challenged at the Patent Office. The AIA retained ex parte re-examination, added post-grant review

as well as preissuance submission of prior art by third parties and reworked inter partes re-examination, which was renamed inter partes review. While some of these new procedural mechanisms, particularly inter partes review, have become a popular weapon against patent trolls, they still require months, if not years, to obtain a decision whether the troll's patents are valid.

For its part, the courts, particularly the U.S. Supreme Court, began narrowing the types of inventions that could be patented. The primary target of the Supreme Court's decisions were so-called "business method patents", which arguably accounted for the vast majority of patents asserted by trolls. In 2010, the Supreme Court unanimously held in *Bilski v. Kappos*, 561 U.S. 593 that a process for hedging risk in commodities trading did not constitute patentable subject matter. In a preview of things to come, four of the nine Supreme Court justices indicated in a concurring opinion that they would broadly hold all "business method" patents unpatentable. In 2012, the Supreme Court further narrowed the scope of patentable subject matter in *Mayo v. Prometheus*, 132 S.Ct. 1289 when it unanimously held that a method of determining the optimal dose of a gastrointestinal medicine was unpatentable subject matter.

In June 2014, the Supreme Court then went a step further in *Alice v. CLS Bank* when it held, again unanimously, that a computerized method of exchanging financial obligations between two parties using a third-party intermediary to mitigate settlement risk was unpatentable subject matter. In *Alice*, the Supreme Court emphasized that using a computer to implement an easily understood business method is of no patentable significance.

While the Supreme Court's decisions in *Bilski*, *Mayo* and *Alice* went a long way toward undermining the type of business method and Internet patents that have been a favorite weapon of patent trolls, they did not provide victims of patent trolls a way to kill the troll's patents before incurring many thousands of dollars in litigation costs. Even the Supreme Court's 2014 decisions in *Highmark v. Allcare Health Management* and *Octane Fitness v. Icon Health & Fitness*, which made it easier to recover attorney's fees from losing patent trolls, may make patent trolls think twice before bringing lawsuits, it does not provide the victims of patent trolls with any relief until they have successfully defended the patent lawsuit.

Lethal Motion To Dismiss

In its *Ultramercial* decision, the Federal Circuit provided troll victims with a guillotine to quickly decapitate the trolls by allowing the issue of patentable subject matter to be decided on a motion to dismiss under Rule 12(b)(6) of the Federal Rules of Civil Procedure. What this means is that, after the patent troll files a complaint, the accused infringer can then respond immediately (i.e., within the statutory 21 days period plus any extensions) with a threshold motion to dismiss challenging the troll's patent for lack of patentable subject matter. The issue of patent validity will then be squarely before the court for a decision. This approach completely short-circuits all the expense and delay associated with case management conferences, discovery, patent local rule disclosures, claim construction briefing, claim construction hearings and summary judgment motions. Particularly for business method patents, it is a handy way to quickly deliver a coup de grace to the patent troll and its patent(s).

Nonetheless, in approving this shortcut to kicking patent trolls out of court, the Federal Circuit is arguably opting for expediency at the expense of a consistent and coherent body of patent law. In patent law, the purpose of the claim construction process is to provide the court, the litigating parties and the public with an understanding of what patent claims mean before a determination is made whether those claims are valid or have been infringed. Logically, it makes little sense to adjudicate a patent

claim invalid or not infringed if a court does not understand what the patent claim means. By adjudicating on a motion to dismiss whether a patent claim is invalid for lack of patentable subject matter, the Federal Circuit may be putting the proverbial cart before the horse. Presumably, the Federal Circuit is saying that all the trial court needs is a general understanding of what the claim means to determine whether the claim is directed to unpatentable subject matter. Nonetheless, in the context of the Federal Circuit's charter to establish a consistent and coherent body of patent law, skipping over the claim construction step brings to mind Justice Potter Stewart's famous "I know it when I see it" approach in *Jacobellis v. Ohio* to determining whether pornography is obscene.

Entrepreneurship vs. Technology

The Federal Circuit's *Ultramercial* decision is also noteworthy in its effort to identify what is and is not patentable subject matter in the software and business method fields. The patent at issue in *Ultramercial* was directed to a method for distributing copyrighted media products over the Internet where the consumer receives a copyrighted media product at no cost in exchange for viewing an advertisement and the advertiser pays for the copyrighted content. In striking down the *Ultramercial* patent, the Federal Circuit reasoned that "the concept embodied by the majority of the [claim] limitations describes only the abstract idea of showing an advertisement before delivering free content." *Ultramercial*, slip op. at 9-10.

Following the Supreme Court's lead in *Alice*, the Federal Circuit then concluded that "the use of the Internet is not sufficient to save otherwise abstract claims from [patent] ineligibility." *Ultramercial*, slip op. at 11. While paying lip service to the notion that "not all software-based patents will necessarily be directed to an abstract idea," the Federal Circuit's majority opinion provided precious little guidance about where they would draw the line and why. See *Ultramercial*, slip op. at 10.

The concurring opinion in *Ultramercial* written by Circuit Judge H. Robert Mayer made a more thoughtful effort to identify where the line would be drawn and why. Judge Mayer began his concurring opinion by harkening back to the fundamental purpose of the patent laws to "encourage, rather than impede, scientific progress and technological innovation." *Ultramercial*, concurring slip op. at 2. Judge Mayer then noted that, in his view, "generic computers and the Internet are not 'technology', but instead ... they have become indispensable staples of contemporary life. Because they are the basic tools of modern-day commercial and social interaction, their use should in general remain 'free to all men and reserved exclusively to none.'" *Ultramercial*, concurring slip op. at 11.

To draw the line, Circuit Judge Mayer distinguished between "entrepreneurial" and "technological" innovation. *Ultramercial*, concurring slip op. at 8. In Circuit Judge Mayer's view, a "rule holding that claims are impermissibly abstract if they are directed to an entrepreneurial objective, such as methods for increasing revenue, minimizing economic risk, or structuring commercial transactions, rather than a technological one, would comport with the guidance provided in both *Alice* and *Bilski*." *Ultramercial*, concurring slip op. at 9. While Judge Mayer's attempt to distinguish between "entrepreneurial" and "technological" innovation may help identify a workable standard for patentable subject matter, the word "entrepreneurial" seems misdescriptive.

The dictionary defines "entrepreneur" as "a person who organizes, operates, and assumes the risk for business ventures." Many entrepreneurs create companies that commercialize legitimate patentable technologies such as semiconductors, automobile parts, solar panels and pharmaceuticals. Perhaps a better word to describe what Judge Mayer means by "entrepreneurial" is "marketing." In *Ultramercial*, selling advertisements was a way to market copyrighted media products (and a common way at that). In

Bilski, the process for hedging risk in commodity trading was a way to market one's commodity business as being more safe. In Mayo, the method of determining the optimal dose of a gastrointestinal medicine was a way to market the intestinal medicine as providing better efficacy. In Alice, the computerized method of exchanging financial obligations between two parties using a third-party intermediary was also a way to market one's financial business as being more safe.

After initially being slow to follow the Supreme Court's lead against patent trolls and their business method patents, the Federal Circuit has apparently come around in Ultramercial and, through the use of early patentable subject matter resolutions on motions to dismiss, may be giving patent troll victims and courts the tools to now decapitate patent trolls with a vengeance.

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