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## Patent Validity Opinions In Light of Bilski, Ultramercial

Law360, New York (September 22, 2010) -- Clients sometimes hire patent attorneys to prepare an opinion letter about whether a patent owned by another party is valid or invalid. The situation often comes up when a third party is attempting to license a patent across an industry and the client wants to avoid infringing a valid, enforceable patent. However, it can also arise as part of a freedom-to-operate analysis before launching a new business venture.

Opinions of patent invalidity are typically prepared by determining whether there are legal grounds for believing that a patent would be highly likely to be found invalid in a court of law based on prior art references. However, such opinions can also be prepared on any other legal basis for which the patent could be found invalid in litigation.

Of potential interest for those seeking or preparing an opinion of a particular patent's validity is the June 28 decision by the U.S. Supreme Court in *Bilski v. Kappos*, 130 S. Ct. 3218 (2010). *Bilski* indicates that certain types of software and business method patents may be invalid if the claims attempt to cover abstract ideas, which are not patentable subject matter under 35 U.S.C. § 101.

*Bilski's* patent application, which was directed to a business method of managing consumption risk, was held to be unpatentable as an attempt to cover an abstract idea. The *Bilski* court reiterated that laws of nature, physical phenomena, and abstract ideas are not patentable under 35 U.S.C. § 101.

Additionally, the Supreme Court held that the machine-or-transformation test is not an exclusive test for determining whether a process is patentable under 35 U.S.C. § 101. However, the Supreme Court did not articulate any specific alternate tests for patentability of process claims.

One aspect of the Bilski decision is that it provides additional Supreme Court jurisprudence that potentially expands the range of claims that are invalid under the abstract idea doctrine. The Supreme Court found Bilski's patent invalid on the same basis as the claims in the earlier Supreme Court decisions in *Parker v. Flook*, 437 U.S. 584 (1978), and *Gottschalk v. Benson*, 409 U.S. 63 (1972).

One of the court's rationales for finding Bilski's claims invalid was that the Court identified the claims as being directed to hedging, and then the court stated that allowing Bilski to patent risk hedging would pre-empt use of the approach in all fields and hence would grant a monopoly over an abstract idea. *Bilski*, 130 S. Ct. at 3230-31.

How does Bilski potentially expand the Supreme Court jurisprudence regarding the abstract idea doctrine? This arises from the lack of precision with which the Bilski court analyzed specific claim limitations. The court viewed claim 1 as broadly covering and preempting hedging without examining the specific limitations of claim 1 that arguably would limit the claim to a specific category of hedging.

Several of the dependent claims were dismissed as being unpatentable without systematically analyzing the scope of the dependent claims, including the base claim and all intervening claims. This results in a potential argument that the Bilski court took a more expansive stance in finding preemption than the earlier Supreme Court cases of *Flook* and *Benson*.

*Flook* and *Benson* were directed to claims that were essentially mathematical formulas, with *Flook* having a field of use limitation in the preamble. However, the claims at issue in *Bilski* are less mathematical than those in *Flook* and *Benson*.

For example, claim 1 of Bilski's patent application includes steps such as initiating a series of transactions between a commodity provider and consumers, identifying market participants, and initiating a series of transactions between a commodity provider and market participants. The Bilski court found that even the lengthy dependent claims in *Bilski* were unpatentable, describing them as "[b]road examples of how hedging can be used in commodities and energy markets" with the court criticizing the "similarities" in several of the dependent claims to well known statistical techniques. *Bilski*, 130 S. Ct. at 3231.

However, the Bilski court did not perform a rigorous analysis of the specific combination of limitations in the dependent claims. For example, consider claim 8 of Bilski's patent application, which includes six steps (a-to-f) for defining a cap on weather-induced pricing.

Claim 8 depends from claim 1, with intervening claims 2 to 4. If written in independent form, claim 8 would have a total of nine method steps (three from claim 1 and six from claim 8), would limit the commodity to energy and the market participants to transmission distributors (via claim 2), would limit the consumption risk to weather related pricing (via claim 3), and would include a specific defined relationship for determining a fixed price for a consumer transaction (via claim 4).

Yet claim 8 was also held by the Bilski court to be invalid under 35 U.S.C. § 101.

Why does claim 8 of Bilski's patent not describe patentable subject matter? How does it preempt hedging in all other fields? The Bilski court did not provide a fully satisfactory answer. The totality of claim limitations for claim 8, including the base claim and intervening claims, was not analyzed. Instead, each dependent claim in Bilski was dismissed in isolation and with a lack of rigor in analyzing the specific claim language at issue.

There are two possible ways to understand the outcome for Bilski's claim 8.

The first possibility is that the Bilski court arrived at a correct result under a narrow interpretation of Flook and Benson but was sloppy in explaining its application of Flook and Benson.

The second possibility is that the Bilski Court has in effect provided guidance that Flook and Benson are to be read in a way in which: 1) pre-emption may be determined by examining whether the core principle of an invention, interpreted in the broadest possible light, pre-empts use in other fields; and 2) the significance of additional claim limitations directed to defining a field of use and post-solution activities is discounted by, for example, considering the additional limitations in isolation rather than in combination.

Indeed, Justice John Paul Stevens noted in his concurrence that the Bilski court discounted features of Bilski's claims as token postsolution components. Bilski, 130 S. Ct. at 3235-36 (Stevens, J., concurring). Justice Stevens also observed that the Bilski court had artificially described Bilski's claims as being directed to the larger concept of hedging, when the term describes a larger category of processes including Bilski's claim.

One of the first district court cases applying Bilski has interpreted it as teaching that the "core principle" of an invention is first analyzed by determining whether an invention is an abstract idea that preempts use of the method in other fields.

On Aug. 13, 2010, the district court in *Ultramercial LLC v. Hulu LLC*, No. CV 09-06918 (C.D. Cal. Aug. 13, 2010), invalidated U.S. Patent No. 7,346,545 under the holding of *Bilski*. The '545 patent has method claims related to a method of delivering media products over the Internet.

Issued claim 1 of the patent includes 11 steps that the Ultramercial court paraphrased as follows: 1) receiving media from content provider; 2) selecting an ad after consulting an activity log to determine how many times the ad has been played and how many more times it need be played; 3) offering media products on the Internet; 4) restricting general public access to the media; 5) offering various media to customers for free in exchange for their watching the selected ad; 6) receiving a request to view the media from the Internet user; 7) facilitating the display of the ad; 8) allowing the Internet user access to the media; 9) same as 8 but for interactive media; 10) recording the transaction in the activity log; and 11) receiving payment from sponsor for the ad.

The dependent claims included features such as verifying passwords and downloading the media product to a personal computer.

In finding the '545 patent invalid, the Ultramercial court analyzed whether the claims were abstract ideas under *Bilski*.

First, the Ultramercial court examined whether the "core principle" of the '545 patent was directed to an abstract idea under *Bilski*, observing that: "the '545 patent is the basic idea that one can use advertisement as an exchange or currency. An Internet user can pay for copyrighted media by sitting through a sponsored message instead of paying money to download the media. This core principle, similar to the core of the *Bilski* patent, is an abstract idea." *Id.* at \*6.

Second, the Ultramercial court found that other limitations of the claims were not sufficient to avoid preemption in other fields. In particular, the Ultramercial court stated that, "similar to the patent in *Bilski*, the added features, examples, or limitations of the '545 patent do not make it patentable ... If the claimed invention here were patentable, it would 'preempt use of this [method] in all fields.'" *Id.*

One interesting aspect of the Ultramercial case is that the district court found preemption even though the prosecution history indicated that the claims of the '545 patent were significantly narrowed to overcome numerous prior art rejections.

The "core principle" identified by the district court corresponds approximately to the scope of the originally filed claims. Claim 1, as originally filed in 2001, included only four steps: providing a product at a networking site, said product being covered by intellectual property; restricting access to said product; facilitating the display of a sponsor message to a consumer; and allowing said consumer access to said product after said step of facilitating the display of said sponsor message.

Over almost seven years of prosecution before the U.S. Patent and Trademark Office, the patentee was forced to narrow the claims to recite eleven steps in order for it be allowed by the patent office over numerous prior art rejections for both lack of novelty and obviousness. That is, the patent owner was forced to essentially concede by the series of amendments that the issued claims do not cover the "core principle" of the invention, but are in fact significantly narrower in scope by virtue of a combination of limitations added to distinguish over numerous prior art rejections.

Thus, the issued claims include a specific combination of limitations to overcome the prior art in addition to those corresponding to the "core principle." Yet the district court did not consider the file history in making its finding of preemption and invalidity under 35 U.S.C. § 101.

It is unclear if other district courts will apply Bilski in the same manner as Ultramercial. It is also likely that Ultramercial will be appealed. However, if other courts do apply Bilski in a similar manner, it would open up opportunities to attack a wide range of patents under the abstract idea doctrine.

The "core principle" analysis used in Ultramercial means that even patents with very lengthy claims can be potentially invalidated under 35 U.S.C. § 101. Moreover, the Ultramercial case deals with process patent claims that have no mathematical components at all.

What does this mean for someone interested in preparing an opinion regarding the validity of a particular patent under 35 U.S.C. § 101?

The Ultramercial case indicates that some district courts may view Bilski as signaling a dramatic shift in the abstract idea doctrine. However, the U.S. Court of Appeals for the Federal Circuit is likely in the next year to make several rulings on how Bilski is to be applied in different situations.

A prudent course of action would probably be to wait for additional guidance from the Federal

Circuit to verify that Bilski signals a shift in the abstract idea doctrine. But even a small expansion in the abstract idea doctrine could have a significant impact on patent validity analyses of business method and software related patents.

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