The Federal Circuit and *Ultramercial*: Software and Business Method Patents Tumble Further Down the Rabbit Hole

Mark Patrick
*American University Washington College of Law*

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NOTE

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MARK PATRICK*

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* Senior Staff Member, American University Law Review, Volume 64; J.D. Candidate, May 2015, American University Washington College of Law; B.S., Physical Sciences (Pre-Patent Law), 2011, University of Maryland; USPTO Registration Number 72,958. Many thanks to the staff of the American University Law Review for their efforts in bringing this piece to publication. I would especially like to thank my parents, to whom I owe everything.
During World War II, work began at the University of Pennsylvania's Moore School of Engineering on the Electronic Numerical Integrator and Computer (ENIAC)—a machine commissioned by the U.S. military and designed to calculate munitions trajectories. Once completed, the ENIAC weighed thirty tons and was seen by many as the world's first general purpose electronic digital computer. While advancements in computing power prompted the evolution of the ENIAC into the computers of today, it is the software that runs on modern computers that make them so crucial to our everyday lives. "Software" consists of the programs that run on a computer and enable it to perform certain functions. However, as far as the United States Patent and Trademark Office (USPTO) is concerned, both software and business methods fall under the umbrella of "computer-implemented inventions." Patent applications to software and business methods are grouped together because both are often claimed as abstract processes implemented on computer hardware, and as such, they both frequently fall victim to the abstract idea exception—one of the three judicially created exceptions to patent eligibility.

1. See generally Steven Levy, The Brief History of the ENIAC Computer, SMITHSONIAN MAG. (Nov. 2013), http://www.smithsonianmag.com/history/the-brief-history-of-the-eniac-computer-3889120 (tracing the development of the first computer, which began as an idea of "a powerful new kind of electronic calculator [that] could produce benefits to the war effort").


3. Cf. CRAIG ALLEN NARD, THE LAW OF PATENTS 204 (2d ed. 2011) (concluding that despite "no universally accepted definition," it is most appropriate to describe software as the "series of instructions, known as source code and object code, 'that directs a computer to perform specified functions or operations'" (quoting Fantasy Sports Props., Inc. v. Sportsline.com, Inc., 287 F.3d 1108, 1118 (Fed. Cir. 2002))).


5. See Alice Corp. v. CLS Bank Int'l, 134 S. Ct. 2347, 2354 (2014) (noting that the U.S. Supreme Court has long held that the statute governing patent-eligible subject matter contains an implicit patentability exception for laws of nature, natural
Patent eligibility is governed by 35 U.S.C. § 101, and the Supreme Court has recognized that in drafting § 101 Congress intended to provide patent protection to "anything under the sun that is made by man." Section 101 has been the subject of heated discussion in recent years as the courts have repeatedly attempted to define its boundaries. Since 2011, the Supreme Court and the U.S. Court of Appeals for the Federal Circuit have been engaged in one specific back-and-forth over Ultramercial’s patented method for providing free media content to an Internet user in exchange for viewing a third-party advertisement, which highlights the recent developments in this field of law. This journey begins with the Supreme Court’s decision in Bilski v. Kappos and the Federal Circuit’s subsequent decision in Ultramercial, LLC v. Hulu, LLC (“Ultramercial I”), in which the court upheld Ultramercial’s patented method. Since Ultramercial I, the Federal Circuit has weighed in on Ultramercial’s patent twice more. The court once again upheld the patent in its second review of Ultramercial, Inc. v. Hulu, LLC (“Ultramercial II”), which was reconsidered in light of the Supreme Court’s 2012
decision in Mayo Collaborative Services v. Prometheus Laboratories, Inc.\textsuperscript{18} Less than one year later, the Federal Circuit invalidated the patent in its third review of Ultramercial, Inc. v. Hulu, LLC\textsuperscript{14} ("Ultramercial III"), which was reconsidered in light of the Supreme Court’s 2014 decision in Alice Corp. v. CLS Bank International.\textsuperscript{15} This Note concentrates on these cases, paying close attention to how the intervening Supreme Court decisions affected the Federal Circuit’s analysis of Ultramercial’s patent.

This Note begins by addressing the patent eligibility of computer-implemented inventions and the state of the abstract idea exception after the Supreme Court’s decision in Bilski. Second, this Note traces the path carved out by the Federal Circuit in Ultramercial I, Ultramercial II, and Ultramercial III in its attempt to reconcile the Supreme Court’s decisions addressing subject matter eligibility in Mayo and Alice Corp. Finally, this Note concludes that Alice Corp. and the cases since represent significant movement towards a narrower interpretation of 35 U.S.C. § 101, but the USPTO’s most recent guidance presents a real opportunity for stability in the interpretation of subject matter eligibility.

I. ULTRAMERCIAL AND THE STRUGGLE TO DEFINE THE BOUNDARIES OF PATENT ELIGIBILITY

Courts have consistently grappled with the patentability of software and business methods, or computer-related processes,\textsuperscript{16} since the early 1970s.\textsuperscript{17} The threshold step in determining patentability is presented by 35 U.S.C. § 101, which states, “Whoever invents or discovers any new and useful process, machine, manufacture, or
composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title."18 In analyzing § 101, the Supreme Court has declared that Congress intended these four categories of patent-eligible subject matter to be read as broad and inclusive to meet the constitutional objective of the patent system—to encourage innovation.19 A claimed invention that is deemed patent eligible may proceed to a determination of its patentability.20

Even if a claimed invention fits into one of the four statutory categories, the claim may fall within one of the three judicially created exceptions to patent eligibility: "laws of nature, natural phenomena, and abstract ideas."21 In establishing these exceptions, the Court has held that these fundamental discoveries embody "the basic tools of scientific and technological work."22 Patents covering these elemental concepts would thus reach too far and claim too much.23 Courts have struggled to develop a framework for

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19. See Diamond v. Chakrabarty, 447 U.S. 303, 308 (1980) (interpreting the patent laws as having a "wide scope" because Congress used the modifier "any" in connection with broad terms like "manufacture" and "composition of matter" (internal quotation marks omitted)); see also U.S. CONST. art. I, § 8, cl. 8 (granting Congress the power "to promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries").
20. To obtain a patent, an invention must also meet the utility, novelty, nonobvious, and written description requirements of the Patent Act. See 35 U.S.C. §§ 101–03, 112 (providing the conditions and requirements necessary to obtain a patent on an invention or discovery).
21. Diamond v. Diehr, 450 U.S. 175, 185 (1981) ("A principle, in the abstract, is a fundamental truth; an original cause; a motive; these cannot be patented, as no one can claim in either of them an exclusive right." (quoting Le Roy v. Tatham, 55 U.S. (14 How.) 156, 175 (1853))).
22. Gottschalk v. Benson, 409 U.S. 63, 67 (1972). Through these judicially created exceptions, a new mineral discovered in the earth; Einstein's E=mc², or the law of gravity; and a novel and useful mathematical formula are patent-ineligible laws of nature, natural phenomena, and abstract ideas, respectively. U.S. PATENT & TRADEMARK OFFICE, MANUAL OF PATENT EXAMINING PROCEDURE § 2106 (9th ed. 2014) [hereinafter MPEP].
determining whether a claimed invention directed to one of these exceptions is eligible for patent protection. As Judge Lourie noted in *Alice Corp.*, “[t]he difficulty lies in consistently and predictably differentiating between, on the one hand, claims that would tie up laws of nature, natural phenomena, or abstract ideas, and, on the other, claims that merely ‘embody, use, reflect, rest upon, or apply’ those fundamental tools.”

A. The State of Patentability After Bilski

The Supreme Court first attempted to address the patent eligibility of computer-implemented inventions in a trilogy of cases in the 1970s and 1980s—*Gottschalk v. Benson*, *Parker v. Flook*, and *Diamond v. Diehr*. In *Benson*, the Court evaluated claims directed to a numerical algorithm and applied the machine-or-transformation test for the first time. Under the machine-or-transformation test, a claimed invention is patent-eligible subject matter if “(1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing.” Ultimately, the Court applied what is now referred to as the abstract idea exception and found the claims too abstract to be eligible for patent protection because they covered all known and unknown uses of the mathematical formula.

In *Flook*, the Court ruled ineligible claims to a method for using an algorithm to continuously update alarm limits during a chemical

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29. *Benson*, 409 U.S. at 64, 70.
31. *Benson*, 409 U.S. at 68, 71–72 (reasoning that if a patented method for converting decimals into binary numerals was upheld, it would effectively be “a patent on the algorithm itself”).
conversion process. Unlike the claims in Benson, the claims in Flook did not cover every potential application of the formula because they were limited to a specific field of use due to the inclusion of "specific 'post-solution' activity." However, the Court rejected the notion that adding "post-solution activity" to an unpatentable principle can create a patentable process.

Almost a decade after Benson, the Court in Diehr finally recognized that a computer program might deserve patent protection. In Diehr, the Court evaluated claims protecting a computerized process for "molding raw, uncured synthetic rubber into cured precision products" using a mathematical formula. Despite clear recitation of a mathematical formula and a programmed computer in the steps of the process, the Court found the claims to be patent eligible. Relying on the fact that the claims did not attempt to preempt the mathematical formula itself and instead sought "to foreclose from others the use of that [formula] in conjunction with all of the other steps in their claimed process," the Court differentiated the method in Diehr from those in Benson and Flook as being the protected application of an abstract idea to a narrow field. With Diehr, the Court opened the door to the possibility of obtaining a patent on software by acknowledging that the presence of a computer program, digital computer, or mathematical formula in a claim does not render it ineligible.

33. Id. at 586, 590 (describing "the adjustment of the alarm limit to the figure computed according to the formula" mentioned in the claims as "specific 'post-solution' activity").
34. Id. at 590 (suggesting that "[a] competent draftsman could attach some form of post-solution activity to almost any mathematical formula").
37. Id. at 184–85.
38. Id. at 187.
In 2010, the Court attempted to reconcile these three cases in *Bilski*, where it affirmed the Federal Circuit's decision rejecting the claims as covering a patent-ineligible abstract idea. The claims in *Bilski* were directed to a process of hedging risk in commodities trading by investing in other segments of the energy industry. The Court rationalized that "[a]llowing [a patent for] risk hedging would pre-empt use of [the] approach in all fields, and would effectively grant a monopoly over an abstract idea." The Court also reprimanded the Federal Circuit for not following *Benson, Flook*, and *Diehr* and for limiting the analysis exclusively to the "machine-or-transformation" test. Instead, the Supreme Court noted that the "machine-or-transformation" test is merely instructive—"a useful and important clue, an investigative tool, for determining whether some claimed inventions are processes under § 101."

The Court in *Bilski* also addressed business methods and rejected their categorical exclusion from patent eligibility. The majority opinion, written by Justice Kennedy, points to the definitions of "process" and "method" and the language of 35 U.S.C. § 273—which for purposes of a defense to infringement alone defined a "method" as "a method of doing or conducting business"—as proof of legislative intent to leave open patents to business methods. However, the concurrence written by Justice Stevens and joined by Justices Ginsburg, Breyer, and Sotomayor would have found the claims patent ineligible because they were directed to a business method, and "business methods are not patentable." Following this decision, software and business methods remained patentable despite continued opposition, even in the Supreme Court.

41. *Id.* at 599.
42. *Id.* at 611–12.
43. *See id.* at 602–04 (dismissing the notion that the “machine-or-transformation test” is the sole test to determine what constitutes a patentable process because “[t]he Court is unaware of any ‘ordinary, contemporary, common meaning’ of the definitional terms ‘process, art or method’ that would require these terms to be tied to a machine or to transform an article” (citation omitted) (quoting *Diehr*, 450 U.S. at 182)).
44. *Id.* at 604.
45. *See id.* at 606 (“Section 101 similarly precludes the broad contention that the term ‘process’ categorically excludes business methods.”).
47. *Id.* at 614 (Stevens, J., concurring) (arguing that “a claim that merely describes a method of doing business does not qualify as a ‘process’ under § 101”).
The USPTO subsequently released an exhaustive list of factors to aid in determining what constitutes a patent-eligible computer-implemented process. 48

B. Ultramercial, LLC v. Hulu, LLC: The Journey Begins

In 2011, Ultramercial appealed the dismissal of its patent infringement claim, which the district court had dismissed on the ground that Ultramercial’s U.S. Patent No. 7,346,545 (“the ‘545 patent”) failed to claim patent-eligible subject matter. 49 This patent covered a method for distributing copyrighted works via the Internet, whereby advertisers pay for the copyrighted content and allow the consumer to gain access to the content free of charge after the consumer views an advertisement. 50 Claim 1 of the ‘545 patent provides:

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;
- a fourth step of restricting general public access to said media product;

48. See Interim Guidance for Determining Subject Matter Eligibility for Process Claims in View of Bilski v. Kappos, 75 Fed. Reg. 43,922, 43,925 (July 27, 2010) (listing factors that weigh for and against patent eligibility, including criteria provided by the machine-or-transformation test and whether an “abstract idea has been practically applied”).
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.\footnote{51}

Ultramercial alleged that Hulu, YouTube, and WildTangent infringed the '545 patent.\footnote{52} Hulu and YouTube were dismissed from the case, and WildTangent's successful motion to dismiss resulted in this appeal.\footnote{53}

In the decision written by former Chief Judge Rader,\footnote{54} the Federal Circuit reversed and remanded, holding that "the claimed invention is not 'so manifestly abstract as to override the statutory language of section 101.'"\footnote{55} After highlighting the broad interpretation of § 101 and subject matter eligibility intended by Congress,\footnote{56} the court discussed the judicially created exceptions to patent eligibility and the problems encountered when interpreting the "abstractness" of

\footnotetext[51]{\textsuperscript{51}} '545 Patent col. 8, ll. 5–48.\footnotetext[52]{\textsuperscript{52}} Ultramercial I, 657 F.3d at 1325.\footnotetext[53]{\textsuperscript{53}} Id.\footnotetext[54]{\textsuperscript{54}} During his time on the Federal Circuit, former Chief Judge Rader's expansive view of what constitutes patent-eligible subject matter was well documented. See, e.g., Classen Immunotherapies, Inc. v. Biogen IDEC, 659 F.3d 1057, 1073–75 (Fed. Cir. 2011) (Rader, C.J., opinion) (highlighting public policy reasons why the Federal Circuit "should decline to accept invitations to restrict subject matter eligibility").\footnotetext[55]{\textsuperscript{55}} Ultramercial I, 657 F.3d at 1330 (quoting Research Corp. Techs. v. Microsoft Corp., 627 F.3d 859, 869 (Fed. Cir. 2010)).\footnotetext[56]{\textsuperscript{56}} See id. at 1325–26; supra note 19 and accompanying text (discussing the expansive nature of § 101 and subject matter eligibility).
claimed inventions falling specifically within the § 101 "process" category.\footnote{Ultramercial I, 657 F.3d at 1326–27 (internal quotation marks omitted).} The court acknowledged that the '545 patent was indeed a "method" under the definition of "process" in § 100(b) because the Supreme Court in 

Bilski made clear that a "method' may include even methods of doing business."\footnote{Id. (internal quotation marks omitted) (citing Bilski v. Kappos, 561 U.S. 593, 606–07 (2010)); see supra note 16 (providing the definition of "process" under title 35).}

Before turning to the '545 patent, the Federal Circuit disclaimed its past reliance on the machine-or-transformation test and recognized the difficulty in devising a clear test to determine whether a claimed invention constitutes an ineligible abstract idea.\footnote{Ultramercial I, 657 F.3d at 1327; see supra text accompanying notes 25, 30 (describing the difficulty posed when creating tests to apply the judicially created exceptions to subject matter eligibility and providing the inquiry at the heart of the machine-or-transformation test).} Revisiting Benson, Flook, and Diehr, the court clarified that although abstract ideas are not patent-eligible subject matter, the application of an abstract idea may well be patent eligible if applied "to a 'new and useful end.'"\footnote{Ultramercial I, 657 F.3d at 1328–29.}

The Federal Circuit thus performed its § 101 analysis on the "abstractness of the subject matter" in the '545 patent by focusing on whether the claimed invention amounted to a practical application of an abstract idea.\footnote{Id. at 1328; see also Bilski, 561 U.S. at 611 (describing hedging as a basic concept used to protect against risk).}

The Federal Circuit held that the concept of using advertising as currency is just as abstract as the concept of hedging—the subject matter of the patent-ineligible method from 

Bilski.\footnote{Ultramercial I, 657 F.3d at 1328.} However, the court determined that, unlike the patent in 

Bilski, the '545 patent claims a practical application of its idea.\footnote{Id. at 1328; see supra text accompanying notes 25, 30 (describing the difficulty posed when creating tests to apply the judicially created exceptions to subject matter eligibility and providing the inquiry at the heart of the machine-or-transformation test).} Specifically, the "computers and applications of computer technology" involved in the '545 patent and the "extensive computer interface" disclosed were sufficient to raise the claimed invention beyond just an abstract idea to a patent-eligible practical application of an abstract idea.\footnote{Id.}

The court also addressed the contested status of patents to software, referencing the Federal Circuit's en banc decision in 

In re
That decision is often cited for famously equating a general purpose computer having computer programming with a patent-eligible “special purpose computer,” opening up the patenting of software in terms of the hardware it employs. While the court recognized that the '545 patent fails to disclose the particular mechanism—or hardware—utilized to deliver the copyrighted works to the consumer, the failure to do so “does not render the claimed subject matter impermissibly abstract.” Rather, the disclosure of particular instrumentalities or hardware is outside the § 101 analysis and should remain part of the written description and enablement requirements of § 112.

The Federal Circuit’s decision in Ultramercial I was proof of judicial uncertainty regarding subject matter eligibility in the wake of Bilski. Just two weeks prior to Ultramercial I, the Federal Circuit ruled on CyberSource Corp. v. Retail Decisions, Inc. and invalidated a patented method for verifying Internet credit card transactions using “Internet address information,” such as email addresses, IP addresses, and MAC addresses. The Federal Circuit attempted to reconcile these decisions in Ultramercial I by stating that the claims in the ‘545 patent “require, among other things, controlled interaction with a consumer via an Internet website, something far removed from purely mental steps,” while the claims in CyberSource could “be performed entirely in a human’s mind.” However, the tension between these decisions

65. 33 F.3d 1526 (Fed. Cir. 1994) (en banc); Ultramercial I, 657 F.3d at 1328–29 (citing In re Alappat, 33 F.3d at 1545).
66. See In re Alappat, 33 F.3d at 1545 (explaining that general purpose computers become special purpose computers when software programs them to perform specific tasks); see also Julie E. Cohen & Mark A. Lemley, Patent Scope and Innovation in the Software Industry, 89 CALIF. L. REV. 1, 9 (2001) (describing how patent attorneys patented software by claiming it as “hardware devices, pizza ovens, and other machines” (internal quotation marks omitted)).
67. Ultramercial I, 657 F.3d at 1329.
68. See id. (“[W]ritten description and enablement are conditions for patentability that title 35 sets ‘wholly apart from whether the invention falls into a category of statutory subject matter.’” (quoting Diamond v. Diehr, 450 U.S. 175, 190 (1981))). The written description requirement demands that the patent specification adequately describe the invention such that a person of ordinary skill in the art may understand the invention and know that the inventor actually invented what is claimed; the enablement requirement demands that the invention be described such that one of ordinary skill in the art may make and use the invention without undue experimentation. See 35 U.S.C. § 112(a) (2012).
69. 654 F.3d 1366 (Fed. Cir. 2011).
70. Id. at 1367, 1376–77 (internal quotation marks omitted).
71. Ultramercial I, 657 F.3d at 1330.
72. CyberSource, 654 F.3d at 1374–76.
was clear, and it set the stage for the Supreme Court to once again address subject matter eligibility.

C. Searching for "Meaningful Limitations" in Ultramercial II Despite Mayo's "Inventive Concept"

In 2012, the Supreme Court revisited § 101 and patent eligibility in Mayo, where the Court unanimously found claims directed to methods for administering the correct dosage of thiopurine drugs to treat autoimmune disease unpatentable because they claimed a "law of nature." Relying on its rationale in Flook, the Supreme Court held that an unpatentable law of nature is not transformed into a patent-eligible application thereof by merely adding conventional or obvious pre- or post-solution activity. The referenced obvious pre-solution activity was a "determining step" that instructed doctors to "determine the level of the relevant metabolites in the blood, through whatever process the doctor or the laboratory wishes to use." The Court described this claim element as a "well-understood, routine, conventional activity previously engaged in by [those who work] in the field." Even though the patent was not directed to software or a business method, the Court's decision in Mayo proclaimed a methodology for determining patent eligibility that is still used in cases directed at computer-implemented inventions today. Again relying on its rationale in Flook, the Supreme Court looked to whether the use of the patent-ineligible concept also contains an "inventive concept," such as other elements or a combination of elements "sufficient to ensure that the patent in practice amounts to significantly more than

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75. Id. at 1298 (citing Parker v. Flook, 437 U.S. 584, 590 (1978)).
76. Id. at 1297 (internal quotation marks omitted).
77. Id. at 1294.
78. See Alice Corp. v. CLS Bank Int'l, 134 S. Ct. 2347, 2355 (2014) (identifying the "framework for distinguishing patents that claim laws of nature, natural phenomena, and abstract ideas from those that claim patent-eligible applications of those concepts" (citing Mayo, 132 S. Ct. at 1296–98)).
a patent upon the natural law itself."79 Returning to the analysis in *Flook* only muddied the waters because in order to pass the § 101 patent-eligibility threshold, a computer-implemented invention must now contain an "inventive concept" beyond the mere application of a mathematical algorithm or formula and beyond concepts already in practice by those in the field.

Shortly thereafter, the Supreme Court vacated the Federal Circuit’s decision in *Ultramercial I* and remanded the case to the Federal Circuit for further consideration in light of the Court’s decision in *Mayo*.80 In another decision written by former Chief Judge Rader,81 the court in *Ultramercial II* stated that the appropriate inquiry for determining patent eligibility under § 101 is "whether a claim, as a whole, includes meaningful limitations" that restrict the claimed invention to an application of an abstract idea rather than merely claiming the abstract idea itself.82 In performing this inquiry, the court once again found that the claimed invention in Ultramercial’s ‘545 patent “[w]as not ‘so manifestly abstract as to override the statutory language of section 101.’”83

Prior to looking to the claims of the ‘545 patent, the court outlined the Supreme Court’s guidance for determining whether a claim seeks to monopolize an abstract idea itself rather than an application of that abstract idea.84 To begin with, a claim is not meaningfully limited if it does nothing more than describe an abstract idea or a simple application thereof.85 A patent with claims that cover every practical application of an abstract idea is also not meaningfully limited.86 As the Supreme Court articulated in *Mayo*, a claim will similarly not be meaningfully limited “if it contains only insignificant or token pre- or post-solution activity—such as identifying a relevant

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81. See supra note 54 (mentioning Chief Judge Rader’s expansive approach to subject matter eligibility).
83. Id. at 1354 (quoting Research Corp. Techs. v. Microsoft Corp., 627 F.3d 859, 869 (Fed. Cir. 2010)).
84. See id. at 1345–49 (chronicling Supreme Court precedent regarding meaningful limitations in a claim).
85. Id. at 1345 (citing Mayo Collaborative Servs. v. Prometheus Labs., Inc., 132 S. Ct. 1289, 1294, 1297 (2012)).
86. Id.
audience, a category of use, field of use, or technological environment." Additionally, a claim does not contain meaningful limitations "if its purported limitations provide no real direction, cover all possible ways to achieve the provided result, or are overly-generalized." Finally, a claim that passes the machine-or-transformation test likely contains meaningful limitations.

The court also reviewed the specific guidelines critical to analyzing meaningful limitations in computer-implemented inventions. The court noted that "the mere reference to a general purpose computer will not save a method claim from being deemed too abstract to be patent eligible." However, if the method is tied to the computer or machine and, as a result, does not preempt every practical application of the abstract idea, it will likely be patent eligible. Further, the claim is more likely to be meaningfully limited if the computer is integral to either the performance or solution of the method. Ultimately, the presence of a computer will lead to a claim being found patent eligible if the claim is "tied to a computer in a specific way, such that the computer plays a meaningful role in the performance of the claimed invention," thus ensuring that the claim does not preempt all uses of the abstract idea.

Applying these principles, the Federal Circuit determined, for the second time, that the claims in the '545 patent clearly require the use of computers, the Internet, and activity in cyberspace for the invention to meet its intended purpose. Claim 1 of the '545 patent is a specific application of an abstract idea involving "an extensive computer interface." As a result, the court held that the claimed invention did not preempt all practical applications of the abstract

87. Id. at 1346; see supra notes 74–77 and accompanying text (summarizing the Supreme Court's decision in Mayo).
88. Ultramercial II, 722 F.3d at 1346.
89. See id. at 1347; supra notes 43–44 and accompanying text (detailing the Supreme Court's take on the appropriate weight to give the machine-or-transformation test).
90. Ultramercial II, 722 F.3d at 1348.
91. See id. ("This inquiry focuses on whether the claims tie the otherwise abstract idea to a specific way of doing something with a computer, or a specific computer for doing something; if so, they likely will be patent eligible.").
92. Id.
93. Id. at 1349.
94. See id. at 1350; see also supra notes 63–64 and accompanying text (describing the Federal Circuit's analysis of the '545 patent in Ultramercial I).
95. See Ultramercial II, 722 F.3d at 1350, 1352; see also supra note 51 and accompanying text (providing the text of Claim 1 of the '545 patent, the disputed claim in each of the three Ultramercial decisions).
idea or recite token pre- or post-solution steps and, therefore, was meaningfully limited. The court again clarified that its decision did not articulate what is required of a patent-eligible computer-implemented invention but merely that the claims in the '545 patent were indeed patent eligible.

The court cautioned against a test for patent eligibility that contains the “inventive concept” language found in Mayo. It was concerned that a patent-eligibility analysis that seeks an “inventive concept” will conflate § 101 with the other conditions of patentability. The court viewed the Supreme Court’s mention of “inventiveness” in Mayo to be more akin to an interpretation of whether the claimed method merely requires the essential steps necessary to implement or make use of an abstract idea. If all the steps in a claimed invention are “those that anyone wanting to use the natural law would necessarily use,” the claimed invention is not meaningfully limited. The additional, or “inventive,” steps “must be more than ‘routine’ or ‘conventional’ to confer patent eligibility.”

Judge Lourie filed a concurring opinion in which he admonished an analysis that does not “faithfully” follow recent Supreme Court decisions, specifically referring to Mayo. According to Judge Lourie, the test should look to whether there is any risk that the claims preempt the use of an abstract idea by first identifying the abstract idea embodied in the claim and then evaluating the balance of the claim to determine whether “additional substantive limitations . . . narrow, confine, or otherwise tie down the claim so that, in practical terms, it does not cover the full abstract idea

96. Ultramercial II, 722 F.3d at 1352.
97. See id. at 1353 (repeating language from Ultramercial I in which the court limited potential interpretation of its decision); see also Ultramercial, LLC v. Hulu, LLC (Ultramercial I), 657 F.3d 1323, 1328 (Fed. Cir. 2011) (“This court does not define the level of programming complexity required before a computer-implemented method can be patent-eligible. Nor does this court hold that use of an Internet website to practice such a method is either necessary or sufficient in every case to satisfy § 101.”), vacated sub nom. WildTangent, Inc. v. Ultramercial, LLC, 132 S. Ct. 2431 (2012).
98. Ultramercial II, 722 F.3d at 1347–48 (internal quotation marks omitted).
99. See id.; see also Mayo Collaborative Servs. v. Prometheus Labs., Inc., 132 S. Ct. 1289, 1303–04 (2012) (acknowledging the danger in shifting the § 101 analysis to an inquiry more in line with §§ 102, 103, and 112); supra note 20 (outlining the other requirements necessary to obtain a patent).
100. Ultramercial II, 722 F.3d at 1348 (internal quotation marks omitted).
101. Id.
102. Id. at 1347 (quoting Mayo, 132 S. Ct. at 1294, 1298–99).
103. Id. at 1354 (Lourie, J., concurring).
itself."\textsuperscript{104} Under this analysis, Judge Lourie would, however, still have found the claims to constitute patent-eligible subject matter under § 101 because the added limitations "represent[ed] significantly more than [just] the underlying abstract idea."\textsuperscript{105} Despite once again concurring in the result reached by the court, Judge Lourie's repeated criticism of the approach taken in reaching that result presaged what transpired in the court's third bite at the \textit{Ultramercial} apple.

\textbf{D. Following Alice Corp., the Federal Circuit Finds the Claims Ineligible in Ultramercial III}

Just two months prior to its decision in \textit{Ultramercial II}, the Federal Circuit delivered its now infamous opinion in \textit{CLS Bank International v. Alice Corp.}\textsuperscript{106} Sitting en banc, the ten-judge panel issued a per curiam decision that affirmed the ineligibility of Alice's claims to computer-implemented methods, computer-readable media ("CRM"), and computer systems implementing the methods.\textsuperscript{107} The patents in question were directed to mitigating settlement risk in financial transactions by using a computer system as a third-party intermediary (effectively a system for setting up an escrow).\textsuperscript{108} Including former Chief Judge Rader's additional reflections, the court released seven different opinions, with no single opinion garnering majority support.\textsuperscript{109}

\textsuperscript{104} Id. at 1355 (alteration in original) (internal quotation marks omitted).

\textsuperscript{105} Id. (noting broadly that the implementation of the "complex computer program" at issue does not preempt the abstract idea of "using advertising as an exchange or currency" in all fields).

\textsuperscript{106} 717 F.3d 1269 (Fed. Cir. 2013) (en banc) (per curiam), aff'd, 134 S. Ct. 2347 (2014).

\textsuperscript{107} Id. at 1273; see Ryan Davis, "Nightmare" Ruling on Software Patent Standard Baffles Attys, LAW360 (May 13, 2013, 9:37 PM), http://www.law360.com/articles/440975/nightmare-ruling-on-software-patent-standard-baffles-attys (describing the Federal Circuit's "nightmare" decision as "ma[king] it all but impossible to know whether software patents will survive scrutiny in future cases"); John Kong, \textit{The Alice in Wonderland En Banc Decision by the Federal Circuit in CLS Bank v. Alice Corp}, IPWATCHDOG (May 14, 2013), http://www.ipwatchdog.com/2013/05/14/the-alice-in-wonderland-en-banc-decision-by-the-federal-circuit-in-cls-bank-v-alice-corp/id=40344 (discussing how, like Alice in Wonderland, Alice Corp. must feel "bewildered and frightened by the fantastical situation" the decision created); \textit{see also In re Beauregard}, 53 F.3d 1583, 1584 (Fed. Cir. 1995) (establishing patent eligibility for claims to computer-readable medium, now commonly referred to as a "\textit{Beauregard} claim").

\textsuperscript{108} \textit{CLS Bank}, 717 F.3d at 1286 (Lourie, J., concurring).

\textsuperscript{109} \textit{See id.} at 1270 (listing the several opinions); \textit{see also id.} at 1333–36 (Rader, C.J., additional opinion) (discussing the case in light of his twenty-five years of judicial experience).
In June 2014, the Supreme Court handed down its decision in *Alice Corp.* The Court announced a test for determining §101 eligibility, which asks first “whether the claims at issue are directed to a patent-ineligible concept.” If they are, the second inquiry asks whether the claim’s elements, considered “both individually and as an ordered combination, . . . transform the nature of the claim into a patent-eligible application.”

Aside from this test, the Court did not provide significant guidance for handling patents directed to computer-implemented inventions. In describing the framework for performing the second inquiry above, however, the Court did look to the language in *Mayo* that requires “search[ing] for an ‘inventive concept’—i.e., an element or combination of elements that is ‘sufficient to ensure that the patent in practice amounts to significantly more than a patent upon the [ineligible concept] itself.’” In performing this analysis, the Court unanimously invalidated the patent claims, holding that, like the concept of risk hedging in *Bilski*, “the concept of intermediated settlement” in *Alice Corp.* fell “squarely within the realm of abstract ideas,” and that all of the claims, “which merely require generic computer implementation, fail to transform that abstract idea into a patent-eligible invention.”

In essence, the analysis from *Alice Corp.* requires determining whether a patent attempts to claim an abstract idea by looking at whether the claimed invention contains an inventive concept sufficient to create a patent-eligible application of that abstract idea. In simplest terms, the analysis requires more than merely reciting an abstract idea performed on a generic computer.

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110. Alice Corp. v. CLS Bank Int’l, 134 S. Ct. 2347, 2355 (2014). If not, the claims are directed to patent-eligible subject matter. *Id.*
111. *Id.* (internal quotation marks omitted).
113. *Alice Corp.*, 134 S. Ct. at 2355 (alteration in original) (quoting Mayo Collaborative Servs. v. Prometheus Labs., Inc., 132 S. Ct. 1289, 1294 (2012)).
114. *Id.* at 2357 (internal quotation marks omitted).
115. *Id.* (citing *Mayo*, 132 S. Ct. at 1294, 1298).
116. *Id.* at 2358–59.
language attempts to make clear that the § 101 inquiry cannot depend simply on the skills of a clever draftsman; instead, an inventive concept is necessary. Ultimately, the opinion fell in line with the Supreme Court's recent decisions in *Bilski* and *Mayo*, which found claims ineligible, but the Court once again passed on the opportunity to describe what is eligible.\(^\text{117}\)

The most troublesome aspect of the *Alice Corp.* decision for proponents of business method patents is Justice Sotomayor's endorsement, in a concurrence, of the position that a "claim that merely describes a method of doing business does not qualify as a 'process' under § 101."\(^\text{118}\) Justice Sotomayor's concurrence, joined by Justice Ginsburg and Justice Breyer, follows Justice Stevens's concurring opinion in *Bilski* where he argued at length for categorically excluding business methods from patent eligibility.\(^\text{119}\)

The majority in *Bilski* relied on 35 U.S.C. § 273 as proof that Congress intended business methods to be eligible for patent protection.\(^\text{120}\) The Leahy-Smith America Invents Act has since done away with that language.\(^\text{121}\) While business methods remain patent eligible, the decision in *Alice Corp.* and the reality that a significant contingent of the Supreme Court disfavors patent protection for business methods will likely lead to increased scrutiny for business method claims going forward.\(^\text{122}\)

Less than two weeks after deciding *Alice Corp.*, the Supreme Court vacated the Federal Circuit's decision in *Ultramercial II*, once again remanding the case to the Federal Circuit but this time for further consideration in light of *Alice Corp.*.\(^\text{123}\) Judge Lourie wrote the decision in *Ultramercial III*, in which the court ruled the claims in

\(^{117}\) See *Mayo*, 132 S. Ct. at 1294 (finding a method for administering the correct dosage of thiopurine drugs to treat autoimmune disease patent ineligible for claiming a law of nature); *Bilski* v. Kappos, 561 U.S. 593, 612 (2010) (finding a method for hedging—a risk management process in commodities trading—to be a patent-ineligible abstract idea).

\(^{118}\) *Alice Corp.*, 134 S. Ct. at 2360 (Sotomayor, J., concurring) (quoting *Bilski*, 561 U.S. at 614 (Stevens, J., concurring)).

\(^{119}\) See *Bilski*, 561 U.S. at 626–57 (Stevens, J., concurring) (disclaiming the majority's broad interpretation of the term "process" and its reliance on § 273 while maintaining that the method was not a process because it describes a business method, which were not traditionally patentable).

\(^{120}\) See id. at 607–08.


\(^{122}\) See infra Part II.A (discussing *Alice Corp.*'s effect on patent eligibility).

the '545 patent were ineligible under § 101. En route to affirming the district court's initial ruling, the court held that the claims in the '545 patent were "directed to no more than a patent-ineligible abstract idea."125

Strictly adhering to the framework articulated by the Supreme Court in Alice Corp.,126 the court began by identifying in the '545 patent the patent-ineligible "abstract idea of showing an advertisement before delivering free content."127 In searching for "additional features" representing an "inventive concept" that transforms the abstract idea into a patent-eligible application of an abstract idea, the court determined that "updating an activity log, requiring a request from the consumer to view the ad, restrictions on public access, and use of the Internet" amounted to merely routine, conventional activity that adds no practical significance to the abstract idea.128 Adding these routine steps and limiting the technological environment to the Internet, the court held, failed to add an inventive concept to the claimed abstract idea.129

The court then looked to the machine-or-transformation test for a "useful clue" in determining the claim's patent eligibility under § 101.130 According to the court, the '545 patent failed the machine-or-transformation test because a general purpose computer and invocation of the Internet did not satisfy the machine prong of the test.131 Further, the "grant of permission and viewing of an advertisement by the consumer, the grant of access by the content

124. See Ultramercial, Inc. v. Hulu, LLC (Ultramercial III), 772 F.3d 709, 712 (Fed. Cir. 2014); see also supra notes 67, 83 and accompanying text (summarizing the Federal Circuit's holdings in Ultramercial I and Ultramercial II where the court found that the claims in the '545 patent were directed to patent-eligible subject matter).

125. Ultramercial III, 772 F.3d at 717.

126. See supra notes 110–13 and accompanying text (providing the framework the Court articulated in Alice Corp. for determining whether the subject matter of a patent falls within one of the judicially created exceptions to patent-eligible subject matter).

127. Ultramercial III, 772 F.3d at 715.

128. Id. at 715–16; see also Alice Corp. v. CLS Bank Int'l, 134 S. Ct. 2347, 2357 (2014) ("A claim that recites an abstract idea must include 'additional features' to ensure 'that the [claim] is more than a drafting effort designed to monopolize the [abstract idea].'" (alterations in original) (quoting Mayo Collaborative Servs. v. Prometheus Labs., Inc., 132 S. Ct. 1289, 1297 (2012))).

129. Ultramercial III, 772 F.3d at 716.

130. Id. (internal quotation marks omitted).

131. Id. at 716-17.
provider, and the exchange of money between the sponsor and the content provider” failed to satisfy the transformation prong of the test.132

II. PATENT ELIGIBILITY AFTER ULTRAMERCIAL

The Federal Circuit’s decision in Ultramercial III demonstrates the undeniable expansion of the judicially created exceptions to § 101 wrought by the Supreme Court’s decisions in Bilski, Mayo, and Alice Corp. By finding ineligible a patent it had twice before ruled eligible, the Federal Circuit exemplified this shift. The Supreme Court remains reluctant to provide a straightforward answer to what constitutes patent-eligible subject matter. However, the USPTO’s recent guidance may obviate the need for a straightforward answer by providing examiners with the instruction they need to definitively determine whether a claimed invention constitutes patent-eligible subject matter.138

A. Alice Corp.’s Effect on Patent Eligibility

In Judge Moore’s dissent-in-part from the Federal Circuit’s per curiam decision in Alice Corp., she articulated what she believed the en banc Federal Circuit’s decision would accomplish:

[1]et’s be clear: if all of these claims, including the system claims, are not patent-eligible, this case is the death of hundreds of thousands of patents, including all business method, financial system, and software patents as well as many computer implemented and telecommunications patents. My colleagues believe that the trajectory the Supreme Court has set for § 101 requires us to conclude that all of the claims at issue here are directed to unpatentable subject matter. Respectfully, my colleagues are wrong.134

Judge Moore summarized what she referred to as “a free fall in the patent system” created by both the Supreme Court and Federal Circuit’s struggle to explicitly define patentable subject matter.135

132. Id. at 717 (explaining that manipulations of abstractions cannot meet the transformation prong of the machine-or-transformation test since they are neither actually nor representative of physical objects or substances).


While the actual results of the claims being found patent ineligible are likely much less severe, *Ultramercial III* and other federal court decisions since the Supreme Court's decision in *Alice Corp.* have demonstrated a clear shift in the federal courts toward a narrower view of what constitutes patent-eligible subject matter. Since the Supreme Court's decision in *Alice Corp.*, the Federal Circuit has ruled on the eligibility of claims directed to computer-implemented inventions six times—five times ruling the claims ineligible and only once finding the claims eligible. The outcome of these cases might not explicitly indicate a trend towards a more restrictive §101 because they may have not turned out any differently prior to *Alice Corp.*, but there is no dispute that requiring a claimed invention contain an "inventive concept" results in a narrower approach to §101 than that performed by the Court in *Bilski*.

Nowhere has the effect of the Supreme Court's narrow interpretation of patent eligibility in *Alice Corp.* been more prominent than in *Bilski*. See supra Part I.A (discussing the Supreme Court's decision in *Bilski* and its effect on patent eligibility).
than at the USPTO.\textsuperscript{140} The most obvious effect of the Court’s decision in \textit{Alice Corp.} is the decrease in the allowance of business method patents and the unusual number of Notices of Allowance withdrawn.\textsuperscript{141} In practice, the Court’s decision has rendered business method claims before examiners at the USPTO presumptively ineligible for claiming “fundamental economic practices” or “methods of organizing human activities.”\textsuperscript{142} Even though the Court’s decision in \textit{Alice Corp.} did not explicitly mention “software” once, academics and practitioners widely consider \textit{Alice Corp.} as having a similar effect on the prospects for applications directed to software.\textsuperscript{143} At the end of the day, business methods and software remain patentable, but after the Supreme Court’s decision in \textit{Alice Corp.}, successfully obtaining a patent to a business method or software is becoming only increasingly more difficult.

B. The USPTO’s Newest Guidance on § 101

On December 16, 2014, the USPTO published in the Federal Register its proposed guidance for examiners when interpreting the abstract idea, natural phenomena, and product of nature exceptions

\begin{itemize}
\item \textsuperscript{140} See James Bessen, \textit{What the Courts Did to Curb Patent Trolling—for Now}, ATLANTIC (Dec. 1, 2014, 12:11 PM), http://www.theatlantic.com/business/archive/2014/12/what-the-courts-did-to-curb-patent-trolling-for-now/383138/?single_page=true (noting how the USPTO has “tightened the spigot on issuing business method patents . . . issuing fewer than half the number that they had issued during months prior to \textit{Alice}).
\item \textsuperscript{141} See Tristan Gray-Le Coz & Charles Duan, \textit{Apply It to the USPTO: Review of the Implementation of Alice v. CLS Bank in Patent Examination, 2014 PATENTLY-O PAT. L.J. 1, 2–3, 10 (2014) (reporting and analyzing a list of 830 withdrawn applications following the guidelines released on August 4, 2014, obtained from the USPTO pursuant to a Freedom of Information Act request); Kate Gaudry, \textit{Post-Alice, Allowances Are a Rare Sighting in Business-Method Art Units}, IPWATCHDOG (Dec. 16, 2014), http://www.ipwatchdog.com/2014/12/16/post-alice-allowances-rare-in-business-method/id=52675 (showing the dramatic increase in the prevalence of § 101 rejections in business method art units but not in others).
\item \textsuperscript{143} See, e.g., Gene Quinn, \textit{The Ramifications of Alice: A Conversation with Mark Lemley}, IPWATCHDOG (Sept. 4, 2014), http://www.ipwatchdog.com/2014/09/04/the-ramifications-of-alice-a-conversation-with-mark-lemley/id=51023 (articulating a belief held by Stanford University Professor Mark Lemley that “\textit{Alice} is a real sea change on the patentable subject matter issue” and that “a majority of the software patents being litigated right now . . . are invalid under \textit{Alice}).
\end{itemize}
to patent eligibility. The guidance outlines the two-step test announced in Alice Corp. and articulates detailed guidelines for performing the test. After determining whether the claims are directed to one of the judicially created exceptions, the guidelines instruct examiners to ask whether "the claim recite[s] additional elements that amount to significantly more than the judicial exception." The second part of this so-called "Mayo test" is intended "to determine whether the claim recites a patent-eligible application of the exception."

The guidance then offers limitations pronounced by the Supreme Court that may or may not amount to "significantly more" when found in claims directed to a judicial exception. Considerations that may qualify as "significantly more" include "[i]mprovements to another technology" or "the functioning of the computer itself"; satisfying the machine-or-transformation test; "[a]dding a specific limitation other than what is well-understood, routine and conventional in the field, or adding unconventional steps that confine the claim to a particular useful application"; or "[o]ther meaningful limitations beyond generally linking the use of the judicial exception to a particular technological environment." Limitations that would not amount to "significantly more" when accompanying a judicial exception include simply "[a]dding the words 'apply it' (or an equivalent)"; "[s]imply appending well-understood, routine and conventional activities previously known to the industry"; "[a]dding insignificant extrasolution activity"; or "[g]enerally linking the use of the judicial exception to a particular technological environment or field of use."

The guidance also

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145. See id. at 74,621–25 (providing extensive guidance on performing the two-part test from Alice Corp., including a synthesis of cases that have dealt with "abstract ideas," stating that "[a]bstract ideas have been identified by the courts by way of example, including fundamental economic practices, certain methods of organizing human activities, an idea of itself, and mathematical relationships/formulas" (internal quotation marks omitted)).
146. Id. at 74,621–22.
147. See id. at 74,622 (naming this set of inquiries "the Mayo test").
148. Id. at 74,624 (internal quotation marks omitted).
149. Id. (internal quotation marks omitted).
150. Id.
provides sample analyses based on recent Supreme Court and Federal Circuit decisions.\footnote{151} These guidelines bear a striking resemblance to the guidelines currently employed by the USPTO for help in determining § 103 obviousness, which has its own long and tortured history.\footnote{152} In \textit{KSR International Co. v. Teleflex Inc.},\footnote{153} the Supreme Court confirmed that § 103 rejections must be supported by "some articulated reasoning with some rational underpinning to support the legal conclusion of obviousness."\footnote{154} Since \textit{KSR} and the release of the USPTO's extensive guidelines, the question of obviousness has experienced dramatically increased stability at the USPTO and in the courts.\footnote{155} If examiners follow the proposed § 101 guidance and provide clear and articulate reasoning behind their § 101 rejections, like that required by the § 103 analysis, subject matter eligibility might also experience dramatically increased stability. The lack of continuity in the analysis makes it very difficult for examiners to assess and effectively apply a framework that changes every handful of years. Unless Congress chooses to intervene in the debate surrounding patents to computer-implemented inventions, software and business method patents may continue to face an uphill battle at the USPTO and in the courts. However, if federal courts are willing to resist overturning the USPTO and grant increased deference to § 101 decisions made by examiners and the USPTO's recently modified court system, patent eligibility and § 101 may experience the stability the doctrine so desperately needs.

\textbf{CONCLUSION}

Recent Supreme Court jurisprudence has created a more narrow view of what constitutes patent-eligible subject matter. Previously

\begin{itemize}
\item \footnote{151} See \textit{id}. at 74,625-32 (providing sample analyses based upon Supreme Court decisions using the guidance and summaries from additional Supreme Court and Federal Circuit decisions, in which all of the cases discussed here are mentioned).
\item \footnote{152} See MPEP, supra note 22, § 2141-44 (providing examination guidelines for determining § 103 obviousness as well as guidance regarding support for obviousness determinations under that statutory provision); see also George M. Sirilla, 35 U.S.C. § 103: From Hotchkiss to Hand to Rich, the Obvious Patent Law Hall-of-Famers, 32 J. MARSHALL L. REV. 437, 447 (1999) (examining nonobviousness and "its tortuous odyssey through three centuries").
\item \footnote{153} 550 U.S. 398 (2007).
\item \footnote{154} \textit{Id}. at 418 (quoting \textit{In re Kahn}, 441 F.3d 977, 988 (Fed. Cir. 2006)).
\item \footnote{155} See Teri-Lynn A. Evans, Note, \textit{The Effect of the Supreme Court's Decision in KSR on the System of Patent Litigation}, 40 RUTGERS L.J. 669, 696 (2009) (concluding that the Court's decision in \textit{KSR} provided "attorneys and judges alike [with] ... a more uniform standard for predicting the strength of a patent").
\end{itemize}
viewed as only a threshold test to the remainder of the patentability analysis, the § 101 framework for claims directed to abstract ideas, laws of nature, or physical phenomena developed by the Supreme Court in *Mayo* and *Alice Corp.* now requires determining whether the claim contains an “inventive step,” thus adding another hurdle to the judicial exception. This more restrictive approach to § 101 has spelled doom for many software and business method patents in courts and at the USPTO. The patent community can take some solace, however, in the USPTO’s most recently proposed guidance on patent subject matter eligibility. Like the lengthy USPTO guidelines for § 103 obviousness provided by the USPTO, implementation of the § 101 guidelines could lead to increased stability in determining patent eligibility.