

The Supreme Court's Recent Patent Decisions

The United States Supreme Court has recently issued two key patent decisions. The first, considered to be the Court's most sweeping decision on patent law since the 1960s, changes the scope of obviousness standards for patents and patent applications. The second potentially reduces infringement risk for U.S. software companies doing business internationally. This legal alert provides an overview of the decisions and their implications.

KSR v. Teleflex: Supreme Court revises patent obviousness standard

In its farthest-reaching patent decision in decades, *KSR v. Teleflex*, 127 S. Ct. 1727 (2007), the Supreme Court recalibrated the standard for determining whether an invention is obvious and therefore unpatentable or invalid. The unanimous ruling unquestionably limits the Federal Circuit's established "teaching, suggestion, or motivation" (TSM) test in favor of returning to a more "expansive and flexible" approach. For patents or patent applications that combine elements from preexisting inventions with only minor improvements, this revised obviousness standard may weaken the power of the existing patents and make future patents more difficult to obtain.

Obvious inventions unpatentable

Obviousness standards are intended to prevent a monopoly by a single patent holder on an obvious combination of known elements. The standards are also commonly employed by patent examiners to reject claims and by litigants to attack the validity of their opponents' patents. Specifically, Section 103 of the Patent Act forbids the issuance of a patent when "the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains."

An invention is not patentable if it would have been obvious, in view of the prior art, to a person having ordinary skill in that particular trade or industry. As Justice Kennedy wrote in *KSR*: "Granting patent

protection to advances that would occur in the ordinary course without real innovation retards progress and may, for patents combining previously known elements, deprive prior inventions of their value or utility."

The Federal Circuit's existing "teaching, motivation, or suggestion" standard

The Federal Circuit had established a TSM standard to provide uniformity in obviousness determinations. Under that now outdated standard, a patent claim could be proved obvious only if the prior art, the problem's nature or the knowledge of a person having ordinary skill in the art, revealed some motivation or suggestion to combine elements of the prior art. The Federal Circuit required that the prior art had to be directed to solving the same problem the patentee was trying to solve in order to be considered when determining obviousness.

The KSR invention and the prior art

KSR v. Teleflex involved a patent on an adjustable automobile gas pedal fitted with an electronic, rather than mechanical, means of interacting with the throttle. Prior art had already disclosed a position-adjustable pedal assembly and the utility of placing an electronic sensor on the pedal, as well as the utility of placing the sensor on the pedal's support structure and not on the footpad. The only improvement in the patent was placing the sensor on the pivot point of the pedal assembly. Applying the TSM standard, the Federal Circuit found that the claim was not obvious primarily because the elements in the patent allegedly incorporated from the prior art did not serve the same purpose in the prior art as they had in the invention in the patent.

The Supreme Court decided this narrow view of obviousness was wrong. It found instead "little difference" between the patent and the existing elements disclosed in the prior art. The fact that the incorporated elements were to be used for a different purpose than in the prior art did not prevent the Court from determining the patent's invention was obvious. The Court based this decision, in part, on

evidence of a strong incentive in the marketplace to upgrade existing adjustable-pedal designs with electronic sensors and determined that putting the sensor on the fixed pivot point “was a design step well within the grasp of a person of ordinary skill in the relevant art.” Therefore, the Supreme Court reversed the Federal Circuit’s decision and found the asserted patent invalid on the basis of obviousness.

KSR’s “reason to combine” standard and the four errors of the Federal Circuit

Although it did not expressly reject the Federal Circuit’s TSM test, the Supreme Court leavened the test with an “expansive and flexible approach.” In making an obviousness determination, a court need only ask “whether the improvement is more than the predictable use of prior art elements according to their established functions.” If the patent involves more than a simple substitution of elements or a simple application of a known technique to a piece of prior art ready for improvement, courts may also consider whether there was an apparent “reason to combine” the known elements by looking at the following:

1. The interrelated teachings of multiple patents
2. The effects of demands known to the design community or present in the marketplace
3. The background knowledge possessed by a person having ordinary skill in the art

The Court specifically identified four errors and “fundamental misunderstandings” in the lower Federal Circuit opinion:

1. Requiring district courts and patent examiners to look only to the problem the patentee was trying to solve in determining whether an invention is obvious. The Court stated that “the question is not whether the combination was obvious to the patentee but whether the combination was obvious to a person with ordinary skill in the art.” The Court held that any need or problem known in the field of invention and addressed by the patent can properly provide a reason for combining existing elements in the manner claimed in the invention.

2. Assuming that a person with ordinary skill in a particular area who is attempting to solve a problem will look only to prior-art elements designed to solve the same problem. On the contrary, the Court pointed out that “familiar items may have obvious uses beyond their primary purposes” and in many cases can be fit together like “pieces of a puzzle.” The Court pointed out that a “person of ordinary skill in the art is also a person of ordinary creativity.”

3. Determining that a patent claim cannot be proven obvious merely by showing that the combination of prior-art elements was “obvious to try.” According to the Court: “[w]hen there is a design need or market pressure to solve a problem and there are a finite number of identified, predictable solutions, a person of ordinary skill in the art has good reason to pursue the known options within his or her technical grasp. If this leads to the anticipated success, it is likely the product not of innovation but of ordinary skill and common sense.”

4. Placing too much emphasis on “hindsight bias,” where courts and patent examiners may impermissibly read into the prior art and the teachings of the invention at issue. While this is a concern, the Court held that “rigid preventative rules that deny fact finders recourse to common sense” are not supported by the Supreme Court’s prior patent case law.

Likely impact: higher patentability standards and easier validity challenges

The Court’s ruling is likely to make many issued patents more vulnerable to validity challenges in litigation, because many existing patents were issued under the Federal Circuit’s TSM obviousness standard. A result of this ruling will be increased uncertainty for patent holders about the validity of their patents.

In addition, *KSR* may result in some patents being more difficult to obtain. Although the decision is not expected to dramatically change the obviousness analysis at the U.S. Patent and Trademark Office,

applicants seeking patents based on incremental improvements over the prior art may have a harder time overcoming obviousness under this new standard.

In short, the *KSR* decision should cause companies to rethink the matters they seek to patent and may cause them to reconsider the value of the patents they hold.

Microsoft v. AT&T: Supreme Court limits extraterritorial reach of U.S. patent law

Paving the way for broader worldwide distribution of computer software code, the Supreme Court issued a second important patent law decision on the same day as its *KSR* ruling. In *Microsoft Corp. v. AT&T Corp.*, 127 S. Ct. 1746 (2007), the Court limited the reach of U.S. patent laws overseas, ruling in favor of Microsoft in its dispute with AT&T over Microsoft's sale of Windows software outside the United States. The decision is likely to result in the reduction of damages awards in patent cases by excluding instances of patent infringement overseas from consideration.

Background concerning extraterritorial limits of United States patent law

It is the general rule under U.S. patent law that no infringement occurs when a patented product is made and sold in another country. Section 271(f) of the patent statute includes an exception to this general rule that attaches infringement liability to one who "supplies or causes to be supplied in or from the United States any component of a patented invention...knowing that such component...will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States."

The dispute between Microsoft and AT&T

AT&T holds a patent on an apparatus that compresses speech into computer code. Microsoft's Windows operating code incorporates a part of AT&T's patented invention for making synthetic speech sound more human.

At issue in the dispute between AT&T and Microsoft was the way Microsoft's Windows operating code is sold overseas. Microsoft ships its operating system to foreign countries on master disks or by encrypted electronic transmission. The data is cop-

ied by foreign companies that install the code on computers that they manufacture and sell overseas.

AT&T sued Microsoft for infringing its patent by sending Windows abroad for copying. Microsoft agreed that installation of Windows software in computers made or sold in the United States infringes AT&T's patent, but argued that U.S. patent law does not apply to its shipments overseas; it also argued that its activities do not fall within section 271(f).

AT&T argued, and the Federal Circuit agreed, that the code for Windows software includes a "component" of AT&T's patented invention under section 271(f). By sending a single copy of Windows abroad, the Circuit Court held, Microsoft intended it to be copied overseas, and thus the shipping and the copying were unlawful under the 1984 law.

The Supreme Court's decision

The Supreme Court reversed the Federal Circuit's decision, ruling that Microsoft was not liable for the alleged infringements occurring outside the U.S. In reaching this conclusion, the Court focused on two key issues:

1. Whether Microsoft's software code qualifies as a "component" under section 271(f)
2. Whether any such components were supplied from the United States

On the first issue, the Court concluded that software code cannot be a component because it is only an abstraction until written onto something physical, such as a CD-ROM. Thus the "components" were the individual copies of Windows, which were manufactured abroad.

On the second issue, the Court determined that Microsoft had not supplied any components from the U.S. The step that occurs on foreign soil—copying the code and installing it on a computer to be sold abroad—does not violate U.S. patent law because the foreign-made copies are not shipped from the U.S., the Court explained. AT&T argued that because computer disks can be copied easily and inexpensively, the extra step of copying in the foreign country should be disregarded. The Supreme Court

disagreed: “The extra step is what renders the software a usable, combinable part of a computer; easy or not, the copy-producing step is essential.”

In sum, the Court concluded that only a copy of Windows, not Windows in the abstract, qualifies as a component under section 271(f). Thus, foreign-made copies satisfy neither the “component” provision of section 271(f) nor the “supplied from the United States” requirement.

Likely impact of the Microsoft decision

The Microsoft decision could potentially lower patent-infringement risk for software companies doing business outside the U.S. It will also likely allow software companies to substantially reduce their damages exposure in patent cases. As an example, after the Supreme Court’s decision was issued,

Microsoft’s general counsel remarked in the *Wall Street Journal* that “Simply by winning this decision today, we reduce the liability exposure in [other patent lawsuits filed against Microsoft] by something close to 60%.”

After the *Microsoft* decision, some patentees will find they must rely more on obtaining and enforcing foreign patents. In circumstances like those present in *Microsoft*, the investment in a foreign patent may be the only means for a patentee to collect damages or stop infringing activity occurring outside the U.S.

Perhaps most important, these recent two decisions may well signal that the Supreme Court believes the pendulum has swung too far in the direction of giving advantages to patent owners. The pendulum appears to be swinging back in favor of freer competition.

Questions and answers

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David Allgeyer	612-371-3216	dallgeyer@lindquist.com
John Chanin	303-454-0512	jchanin@lindquist.com
Christopher Cuneo	612-371-3919	ccuneo@lindquist.com
Mark Jacobson	612-371-2488	mjacobson@lindquist.com
Tim Keller	612-371-2462	tkeller@lindquist.com
Bruce Little	612-371-2437	blittle@lindquist.com
Mark McNeil	612-371-2473	mcneil@lindquist.com
Mark R. Privratsky	612-371-3524	mprivratsky@lindquist.com
Christopher Smith	612-371-3533	csmith@lindquist.com
Sarah Stroebel	612-371-2464	sstroebel@lindquist.com
Christopher Sullivan	612-371-6226	csullivan@lindquist.com
Garret Weber	612-371-3296	gweber@lindquist.com

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