

Supreme Court Relaxes the Test for Patent Obviousness and Limits the Extraterritoriality of U.S. Patent Law

On April 30, 2007, the Supreme Court reversed the Federal Circuit in two cases, one involving a long-standing Federal Circuit test for finding a patented invention obvious and the other involving the Federal Circuit's extension of patent damages to infringing conduct outside the United States. With these decisions, the Court has now reversed the Federal Circuit in patent cases three times in 2007 and four times in the past year.

KSR v. Teleflex – Obviousness

The Court's unanimous decision in *KSR Int'l Co. v. Teleflex Inc.* (No. 04-1350) relaxes the standard for determining whether a claimed invention is obvious and thus not patentable.

The patent at issue in *KSR Int'l* claimed an adjustable automobile gas-pedal assembly that included an adjustable accelerator pedal containing an electronic throttle control sensor. The district court found the patent invalid on summary judgment, holding that the two constituent devices (the adjustable pedal and the control sensor) were known in the art and one of ordinary skill in the art would have found it obvious to combine the two devices to provide the claimed assembly. The Federal Circuit reversed on the grounds that the district court improperly applied its long-standing "teaching-suggestion-motivation" ("TSM") test pursuant to which "a patent claim is only proved obvious if 'some motivation or suggestion to combine the prior art teachings' can be found in the prior art, the nature of the problem, or the knowledge of a person having ordinary skill in the art." The Federal Circuit held that the district court erred by failing to make findings concerning "the specific understanding or principle within the knowledge of a skilled artisan that would have motivated one with no knowledge of the invention" to combine the art in the manner claimed by the patent. The Federal Circuit strictly required that the prior art references address the "precise problem" that the inventor was trying to solve, holding that otherwise "the problem would not motivate an inventor to look at those references."

In "rejecting the rigid approach" of the Federal Circuit, Justice Kennedy, writing for the Court, noted that the TSM test "captured a helpful insight" that an invention composed of several elements is not obvious merely because "each of its elements was, independently, known in the prior art." In this instance, however, the Federal Circuit had turned the TSM's "helpful insight" into a "rigid and mandatory formula" that was incompatible with Court precedent, including the seminal decision in *Graham v. John Deere* (1966), which sets forth "an expansive and flexible approach" to obviousness.

Where a patent claims the combination of elements in the prior art, the Court held that the core obviousness inquiry is "whether the improvement is more than the predictable use of prior art elements according to their established functions." The Court did not

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jettison the TSM test and in fact noted that recent Federal Circuit decisions appeared to elaborate “a broader conception of the TSM test than was applied in the instant matter.” However, the Court held that the courts and the Patent & Trademark Office (“PTO”) should not narrowly focus only on the problem the inventor was attempting to solve: “Under the correct analysis, any need or problem known in the field of endeavor at the time of invention and addressed by the patent can provide a reason for combining the elements in the manner claimed.” The focus should also not be limited to those elements of prior art designed to solve that same problem: “Common sense teaches . . . that familiar items may have obvious uses beyond their primary purposes, and in many cases a person of ordinary skill will be able to fit the teachings of multiple patents together like pieces of a puzzle. . . . A person of ordinary skill is also a person of ordinary creativity, not an automaton.”

The Court recognized that the obviousness inquiry might be particularly difficult where the claimed subject matter involved “more than a simple substitution of one known element for another or the mere application of a known technique to a piece of prior art ready for the improvement.” As the Court explained:

“Often, it will be necessary for a court to look to interrelated teachings of multiple patents; the effects of demands known to the design community or present in the marketplace; and the background knowledge possessed by a person having ordinary skill in the art, all in order to determine whether there was an apparent reason to combine the known elements in the fashion claimed by the patent at issue. To facilitate review, this analysis should be made explicit. As our precedents make clear, however, the analysis need not seek out precise teachings directed to the specific subject matter of the challenged claim, for a court can take account of the inferences and creative steps that a person of ordinary skill in the art would employ.”

In addition to the foregoing, there are some items of particular note concerning the *KSR* decision:

- Rather than remanding for application of the proper obviousness test, the Court reviewed the evidence and held that Teleflex’s patent claim “must be found obvious.” In so doing, the Court rejected the contrary expert declaration provided by Teleflex as “conclusory” and, in any event, insufficient to overcome the Court’s view (shared by the district court) that “the obviousness of the claim is apparent” based on the agreed “content of the prior art, the scope of the patent claim, and the level of ordinary skill in the art.” Combined with the Court’s broadened obviousness test, this clear message that conflicting expert testimony does not necessarily defeat summary judgment should encourage district courts to more frequently enter summary judgment of obviousness.
- The Court declined to address the question of “whether the failure to disclose” an invalidating prior art reference during prosecution “voids the presumption of validity given to issued patents.” The Court did, however, “think it appropriate to note that the rationale underlying the presumption — that the PTO in its expertise, has approved the claim — seems much diminished here.”
- The Court flatly rejected Federal Circuit precedent holding that an invention “cannot be proved obvious merely by showing that the combination of elements was ‘obvious to

try.” The Court held that “[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 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.”

- In its initial assessment of the *KSR* decision, the PTO did not appear to view the decision as a major alteration of its procedures in considering obviousness. In a May 3, 2007, memo, the PTO noted that the Court had “reaffirmed the *Graham* factors in the determination of obviousness,” and did not “totally reject” the TSM test “as a factor in determining obviousness” but rather had stated that the test “could provide a helpful insight” in that regard. Pending further analysis of *KSR*, Examiners were instructed “in formulating a rejection under 35 U.S.C. § 103(a) based upon a combination of prior art elements” to “identify the reason why a person of ordinary skill in the art would have combined the prior art elements in the manner claimed.”
- *KSR* will most likely have the greatest impact on areas such as mechanical, electronics, software and business method patents that involve new combinations of existing elements or known components. The decision should have less impact on other areas, such as life sciences.
- *KSR* should make it easier for the PTO to support obviousness rejections directed to the combination of prior art elements. In addition, because the standard announced in *KSR* applies to issued as well as future patents, the decision may lead to an increase of reexamination requests, and it can be seen as potentially impairing the value of at least some issued patents.

Microsoft v. AT&T – Extraterritoriality

In another reversal of Federal Circuit precedent, the Court in *Microsoft Corp. v. AT&T Corp.* (No. 05-1056), limited the extraterritorial reach of section 271(f) of the Patent Act, which imposes infringement liability for supplying from the United States a patented invention’s components for combination abroad. In a 7-1 decision,¹ the Court reversed the Federal Circuit’s holding that “for software ‘components,’ the act of copying is subsumed in the act of ‘supplying,’ such that sending a single copy abroad with the intent that it be replicated invokes §271(f) liability for those foreign-made copies.”

Writing for the majority, Justice Ginsburg described the case as presenting two questions: “First, when, or in what form, does software qualify as a ‘component’ under §271(f)? Second, were ‘components’ of the foreign-made computers involved in this case ‘supplie[d]’ by Microsoft ‘from the United States’?”

As to the first question, the Court held: “Until it is expressed as a computer-readable ‘copy,’ *e.g.*, on a CD-ROM, Windows software — indeed any software detached from an activating medium — remains uncombinable. . . . Abstract software code is an idea without physical embodiment, and as

¹ Justice Roberts took no part in the decision.

such, it does not match §271(f)'s categorization: 'components' amenable to 'combination.'"

As to the second question, the Court held that neither the master versions of software supplied from the United States nor foreign-made copies thereof triggered liability under section 271(f). Justice Ginsburg explained that under the plain language of the statute, "the very components supplied from the United States, and not copies thereof, trigger §271(f) liability when combined abroad to form the patented invention at issue." "The absence of anything addressing copying in the statutory text weighs against a judicial determination that replication abroad of a master dispatched from the United States 'supplies' the foreign-made copies from the United States within the intendment of §271(f)."

In a concurring opinion, Justice Alito, joined by Justices Thomas and Breyer, addressed the issue of whether a disk supplied from the United States and used to install Windows *directly* onto a computer abroad would trigger section 271(f) liability if the disk were removed after installation. Justice Alito found that it would not because no physical part of the disk was combined with any physical part of the computer.

The Court did not use the case to address generally the patentability of software as certain patent pundits had suggested it might. This is particularly appropriate since Microsoft had conceded infringement and damages based on software sold in the United States and had only challenged the finding of damages based on foreign sales.

The *Microsoft* decision makes clear that the traditional mode of foreign software distribution, *i.e.*, making copies abroad of a master version supplied from the United States, does not run afoul of section 271(f). In addition, the decision raises several strategic considerations:

- *Foreign software distribution via the Internet.* Under *Microsoft*, section 271(f) would not be triggered if software was supplied from the United States to a foreign website for download and installation by foreign end users because the software being installed is a foreign-made copy. Applying the analysis in Justice Alito's concurring opinion, it also could be argued that section 271(f) should not be triggered even if the software is made available on a domestic website for download and installation abroad because no physical part of the software being copied is made a physical part of the computer.
- *Effect on infringement based on intangible components.* Although the Court holds that software in the abstract and other intangible things cannot be "components" of tangible inventions under section 271(f), the Court leaves open the possibility that there "might be" intangible "components" of intangible processes or methods under section 271(f), assuming such processes or methods are patentable. Thus, *Microsoft* may not necessarily foreclose section 271(f) liability based on foreign-made copies of software in cases involving business method patents or other patents for arguably intangible processes.
- *Foreign patent protection.* The Court's limitation on the extraterritorial reach of section 271(f) highlights the importance of obtaining adequate foreign patent protection, particularly in the field of software-related technology. Since an expansion of section 271(f)'s reach is unlikely to be forthcoming from Congress, global patent protection should remain a key element of any comprehensive intellectual property strategy.