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## The Supreme Court Reverses the Federal Circuit's Decisions on *KSR v. Teleflex* and *Microsoft v. AT&T*

### *KSR v. Teleflex* — The Supreme Court Rejects the Federal Circuit's Rigid Approach to Obviousness Determinations

On April 30, 2007, the U.S. Supreme Court (Supreme Court) unanimously reversed the U.S. Court of Appeals for the Federal Circuit (Federal Circuit) in *KSR International Co. v. Teleflex Inc.*, No. 04-1350. The Supreme Court's opinion fundamentally changes the law regarding obviousness in a manner that is likely to make patents harder to obtain and enforce.

This appeal concerns a basic issue of whether or not a claimed invention is patentable. The patent laws say that an applicant is not entitled to a patent "if 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." 35 U.S.C. § 103(a). In applying this standard, the Federal Circuit has held that even if all of the elements of an invention can be found somewhere in the art, the invention still is not obvious unless there is a teaching, suggestion, or motivation to combine the prior art references to create the claimed invention that can be found in some place other than the inventors' disclosure. The Federal Circuit has explained that this requirement prevents the use of hindsight based upon an inventors' disclosure to deprive inventors of a patent to which they are otherwise entitled.

Today's Supreme Court opinion reversed the Federal Circuit because it has taken too rigid an approach in analyzing the question of obviousness. *KSR Int'l Co. v. Teleflex Inc.*, No. 04-1350, slip op. at 11 (U.S. April 30, 2007). In so doing, the Supreme Court's opinion re-emphasized that an obviousness determination required a "broad inquiry and invited courts, where appropriate, to look at any secondary considerations that would prove instructive." *Id.*

The Supreme Court's opinion states that the obviousness inquiry "must ask whether the improvement [represented in the claimed invention] is more than the predictable use of prior art elements according to their established functions," and that courts conducting the inquiry "can take account of the inferences and creative steps that a person of ordinary skill in the art would employ." *Id.* at 13-14.

The Supreme Court identified three errors in the Federal Circuit's obviousness analysis. *First*, the Supreme Court held that "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." *Id.* at 16. This is in contrast to the Federal Circuit's rule that only the problem addressed by the patentee could be considered as the source of a motivation to combine references.

*Second*, the Supreme Court held that the Federal Circuit had adopted too constricted a view of the person of ordinary skill in the art. Because "[a] person of ordinary skill is also a person of ordinary creativity, not an automaton," *id.* at 17, the fact that an invention is obvious to try may suffice to establish unpatentability:

When 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 that instance the fact that a combination was obvious to try might show that it was obvious under §103.

*Id.*

*Third*, the Supreme Court explained that the Federal Circuit had overemphasized the risk that patent examiners and courts would fall prey to hindsight bias.

The Supreme Court's opinion rejected the existing Federal Circuit tests for obviousness and did so in a manner that is likely to make patents harder to obtain and easier to invalidate. While patentees will attempt to limit the scope of today's ruling, the Supreme Court's approving citation of its decisions in *Anderson's-Black Rock, Inc. v. Pavement Salvage Co.*, 396 U.S. 57 (1969), and *Sakraida v. AG Pro, Inc.*, 425 U.S. 273 (1976), emphasizes the Supreme Court's desire to make the obviousness bar to patentability more difficult to meet.

## **Microsoft v. AT&T — The Supreme Court Limits the Availability of Damages for Foreign Activity**

On April 30, 2007, the U.S. Supreme Court (Supreme Court) reversed the U.S. Court of Appeals for the Federal Circuit's (Federal

Circuit) split panel decision in *Microsoft Corp. v. AT&T Corp.*, No. 05-1056. Today's ruling limits the availability of damages for foreign activity and is of particular interest to the software and biotechnology industries.

Under U.S. patent laws, some activity in foreign countries can give rise to liability for infringement of a U.S. patent:

(1) Whoever without authority *supplies* . . . from the United States . . . the components of a patented invention . . . in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

(2) Whoever without authority *supplies* . . . from the United States any *component* of a patented invention that is especially made or especially adapted for use in the invention . . . knowing that such component is so made or adapted and intending 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, shall be liable as an infringer.

35 U. S. C. § 271(f) (emphasis supplied).

AT&T sued claiming that Microsoft was liable for inducing infringement of U.S. patents because foreign computer manufacturers were copying Microsoft Windows onto computers that were then sold for use overseas. In today's opinion, the Supreme Court addressed two questions: *First*, can software be a component of a patented invention? *Second*, are foreign-made copies of software supplied from the United States also supplied from the United States?

The Supreme Court answered the first question "Yes." The Supreme Court determined that the physical embodiment of the software can be a component of the claimed invention. *Microsoft Corp. v. AT&T Corp.*, No. 05-1056, slip op. at 12 (U.S. April 30, 2007). The Supreme Court specifically refused to address the question of whether software, conceived as an abstract set of instructions, can ever be a component of a claimed invention. *Id.* at 12 n.13.

The Supreme Court answered the second question "No." The Supreme Court determined that copies of software that are made

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and installed on machines in foreign countries are not components that are supplied from the United States. In answering this question, the Supreme Court rejected the panel majority's view that the ease of copying software meant that the act of copying was subsumed in the supply process. Instead, the Supreme Court adopted an interpretation of the term "supplies" that is tied to the physical component used in the assembled device. This result has the potential to affect the applicability of § 271(f) in a wide range of cases, especially in biotechnology.

The end result of these holdings is that the installation of software on computers assembled and used outside the United States does not infringe U.S. patents. This

means that U.S. patentees who wish to recover damages for such acts will have to rely upon whatever foreign patents they may have and will have to do so in foreign courts.

Today's decision, however, left unaddressed some of the more provocative issues raised in the briefing and at oral argument. Specifically, the Supreme Court did not address the question of whether or not software in the abstract could be patented. Although this issue was raised by several members of the Supreme Court during argument, it was not squarely presented by this case, and the Supreme Court's opinion stayed well clear of that difficult issue.