On April 30, 2007, the Supreme Court handed down two important decisions relating to patents in *KSR Int'l Co. v. Teleflex Inc* and *Microsoft Corp. v. AT&T Corp.*

**New Standard for Obtaining / Maintaining Patents?**

In a unanimous opinion, the Supreme Court in the *KSR* case addressed the issue of obviousness. The decision questioned the Federal Circuit’s application of the Teaching-Suggestion-Motivation (TSM) test for determining obviousness, and whether the test was compatible with the Supreme Court’s obviousness jurisprudence of *Graham v. John Deere Co. of Kansas City*. The Court ruled that the Federal Circuit’s application of the TSM test was too “narrow” and “rigid”, although it may appropriately be considered.

The Supreme Court mandated a more flexible test than the TSM test, including the application of common sense and the consideration of marketplace demands. The Court admonished the Federal Circuit for taking too narrow a view as to what can be considered a source of motivation. The Court specifically held that motivation can come from seeking to solve any known problem, not just the particular one the patentee was seeking to solve. Similarly, the Court held that it cannot be assumed that one of ordinary skill would look only to art specifically designed to solve that same problem. Finally, the Court recognized at least some probative value in the obviousness inquiry whether a combination of elements is “obvious to try”.

The Court also discussed how the United States Patent and Trademark Office ("USPTO") and the courts should determine obviousness. On May 3, 2007, the USPTO issued to the examiners a letter detailing points from the Court’s opinion to serve as interim guidance until the USPTO issues more formal guidance for examiners for examination of patent applications. In the first case following the Court’s *KSR* decision, the Federal Circuit affirmed the invalidity of a patent based on obviousness. The Federal Circuit used a common sense approach that found the patent an obvious combination of modern electronics with an older mechanical device.

By eliminating the TSM test, the Court’s ruling has altered the determination of obviousness by the courts, the USPTO and patent practitioners. It is thought that the Court’s new approach and the uncertainty associated with its application will make it more difficult to obtain patents from the USPTO and easier to invalidate patents in court. For companies based on technology that has a short lifespan, the ruling is beneficial because it will be easier to invalidate patents that are seen as
inhibiting progress by protecting minor improvements, and particularly patents that are shown to be combinations of known components. For companies where long term patent protection is important due to a lengthy time to market, increasing the risk to the protecting patent may lower the value of the technology. It is only as more cases are decided by the lower courts, which must apply the new standard, that the outcome of the KSR ruling will be seen.

Infringement Depends on What is Exported

The Microsoft Corp. decision addressed the application of extraterritorial infringement under 35 U.S.C. §271(f) to software being exported from the United States. Even though a U.S. patent only provides rights against infringement within the U.S., it is infringement under U.S. law to export uncombined components of an invention patented in the U.S. that are then combined in a foreign country.

Microsoft sold its Windows operating system abroad for installation on computers located outside the United States. AT&T argued that, when installed on those computers, Windows infringed an AT&T patent for digitally encoding and compressing recorded speech. Windows alone did not infringe the patent.

The Court found that Microsoft did not infringe because the “Golden Master” of Windows being exported from the U.S. was not a “component”. Infringement under §271 requires sending abroad “components of a patented invention, where such components are uncombined in whole or in part, in such manner as to actively induce the combination of such components.” Microsoft sent a “Golden Master” of Windows for copying outside the U.S., which copies were then installed in computers in foreign countries. The Court determined that, because the “Golden Master” itself was never incorporated into the foreign computers, it was not a “component” of those computers under §271.

The Court recognized the ease with which copies of software can be made, and that this decision might be a “loophole” for exporting software and avoiding infringement. But the Court left the “loophole” to be closed by Congressional action if it chose to amend the statute. It is unclear at this time whether this “loophole” will be closed by the patent reform currently being debated in Congress. Additionally, this “loophole” may impact the exportation of other easily copied materials, such as genes or nucleic acids for biological inventions.

Related Practices and Industries

Intellectual Property