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CASE NOTE

MEDIMMUNE, MICROSOFT, AND KSR: THE UNITED STATES SUPREME COURT IN 2007 TIPS THE BALANCE IN FAVOR OF INNOVATION IN PATENT CASES, AND THRICE REVERSES THE FEDERAL CIRCUIT

SUE ANN MOTA*

INTRODUCTION

“The Congress shall have 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.”¹ Pursuant to this power, Congress enacted the first patent act in 1790.² The Patent Act of 1952 now allows an inventor to obtain a patent for “any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof.”³ A U.S. patent grants the inventor the exclusive right to make, use, or sell the patented item,⁴ grants remedies for infringement including an injunction,⁵ damages which may be trebled,⁶ and attorneys’ fees.⁷ Thus,

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1. U.S. CONST. art. I, § 8, cl. 8.

2. Patent Act of 1790, ch. 7, 1 Stat. 109 (1790). The Act allowed one who invented or discovered any useful art, manufacture, engine, machine, or device, or any improvement thereof, to petition to have letters patent issued. *See id.*

3. 35 U.S.C. § 101 (2006).

4. 35 U.S.C. § 271(a) (2006).

5. 35 U.S.C. § 283 (2006).

6. 35 U.S.C. § 284 (2006).

7. 35 U.S.C. § 285 (2006).

a patent grants a valuable property right to the inventor, because during the patent term of twenty years from the filing date of the patent application,⁸ no one else may make, use or sell the patented invention.⁹

The Court of Appeals for the Federal Circuit has exclusive jurisdiction over patent appeals.¹⁰ In the last few terms, the U.S. Supreme Court has heard several patent-related cases, yet has not affirmed any of these. In 2005, for example, the Supreme Court unanimously held in *Merck KGaA v. Integra Life Sciences I, Ltd.*,¹¹ that under a Patent Act exemption from infringement,¹² the use of patented compounds in preclinical studies is protected in certain situations, vacating the judgment of the Federal Circuit.¹³

In 2006, the Supreme Court held unanimously in *eBay Inc. v. Merc Exchange, LLC*¹⁴ that the traditional four-factor test used by courts of equity when awarding injunctive relief also applies to disputes under the Patent Act, vacating and remanding the decision of the Court of Appeals for the Federal Circuit.¹⁵ Also in 2006, in a case that started as a patent case,¹⁶ the Supreme Court again unanimously held in *Illinois Tool Works, Inc. v. Independent Ink, Inc.* that in a patent tying case the patent does not necessarily confer market power on the patentee.¹⁷ Although the Supreme Court's decision was concerning antitrust law, the Court vacated and remanded the judgment of the U.S. Court of Appeals for the Federal Circuit.¹⁸ Also in 2006, the Supreme Court dismissed a patent case, *Laboratory Corp. of America Holdings v. Metabolite Laboratories, Inc.*¹⁹

8. See 35 U.S.C. § 154(a)(2) (2006).

9. 35 U.S.C. § 271(a) (2006).

10. 28 U.S.C. § 1295(a)(1), (a)(4) (2006).

11. *Merck KGaA v. Integra Lifescience I, Ltd.*, 545 U.S. 193, 206 (2005). See generally, Sue Mota, *Merck v. Integra Life Sciences-The Supreme Court Protects the Use of Patented Compounds in Free Clinical Studies*, 29 HAMLINE L. REV. 54 (2006).

12. 35 U.S.C. § 271(e)(1) (2006).

13. *Merck*, 545 U.S. at 208.

14. *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1841 (2006). See generally, Sue Mota, *eBay v. MercExchange-Traditional Four-Factor Test for Injunctive Relief Applies to Patent Cases According to the Supreme Court*, 40 AKRON L. REV. 529 (2007).

15. *eBay*, 126 S. Ct. at 1841.

16. See *Indep. Ink, Inc. v. Trident, Inc.*, 210 F. Supp. 2d 1155, 1159 (C.D. Cal. 2002).

17. *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 547 U.S. 28, 45-46 (2006). See generally, Sue Ann Mota, *The Untwining of Patent Law and Antitrust: No Presumption of Market Power in Patent Tying Cases According to the Supreme Court in Illinois Tool Works v. Independent Ink*, L 40 SUFFOLK U. L. REV. 57, 58 (2006).

18. *Ill. Tool Works*, 547 U.S. at 45-46.

19. *Lab. Corp. of Am. Holdings v. Metabolite Labs. Inc.*, 126 S. Ct. 2921 (2006). See

The Court in its 2006 term decided three patent cases and reversed the Court of Appeals for the Federal Circuit in each. This article will examine these three patent cases decided by the U.S. Supreme Court in 2007. First, the Court in January 2007 in *MedImmune, Inc. v. Genentech, Inc.* decided a patent licensee does not have to breach a license agreement before seeking declaratory judgment that the underlying patent is invalid, unenforceable, or not infringed.²⁰ The Federal Circuit's judgment was reversed.²¹

On April 30, 2007, the Supreme Court decided both *Microsoft Corp. v. AT&T Corp.*²² and *KSR International Co. v. Teleflex Inc.*²³ In the former, Microsoft was held not to have supplied a component of an invention from the United States that had the possibility of infringing under the Patent Act.²⁴ In the latter, which "could be one of the most significant business cases of the last decade,"²⁵ the Court unanimously held that the Federal Circuit improperly applied a narrow and rigid approach to the requirement of non-obviousness under the Patent Act, and an expansive and flexible test must be used.²⁶

This Article will examine these three patent cases from the Court and their implications. These three decisions will shape the face of patent law for years to come. The balance has been tipped by the Court away from the pro-patent perspective of the Court of Appeals for the Federal Circuit, and towards a pro-innovation approach which is necessary in the fast-paced, high-technology global business environment.

I. MEDIMMUNE V. GENENTECH

Genentech is the assignee and owner, with the City of Hope, of U.S. Patent number 4,816,567, the Cabilly I patent, named after its first inventor Shmuel Cabilly. This application was filed in April 1983 and the patent was granted in March 1989 for an invention relating to the

generally, Sue Ann Mota, *What is Patentable Subject Matter? The Supreme Court Dismissed Lab Corp. v. Metabolite Laboratories, but the Issue is not Going Away*, 11 MARQ. INTELL. PROP. L. REV. 181 (2007).

20. *MedImmune, Inc. v. Genentech, Inc.*, 127 S. Ct. 764, 777 (2007). See *infra* Part I.

21. *MedImmune, Inc.*, 127 S. Ct. at 777.

22. *Microsoft Corp. v. AT&T Corp.*, 127 S. Ct. 1746 (2007). See *infra* Part II.

23. *KSR Int'l Co. v. Teleflex, Inc.*, 127 S. Ct. 1727 (2007). See *infra* Part III.

24. *Microsoft*, 127 S. Ct. at 1759-60.

25. Michael Oreg, *A Higher Hurdle for Investors: Has it Become Too Easy to Win and Defend Patents? The Supreme Court Says Yes*, BUSINESS WEEK, May 14, 2007, at 38.

26. *KSR*, 127 S. Ct. at 1739.

field of immunoglobulin production, and to using recombinant techniques to produce immunoglobulins which are analogous to those found in vertebrate systems.²⁷ Genentech also is the assignee of U.S. Patent number 6,331,415, the Cobilly II patent, filed in June 1988 and granted in December 2001, for a continuation of the Cobilly I patent for an invention relating to processes for producing immunoglobulins which can use one or more vectors.²⁸

MedImmune had a license agreement since 1997 with Genentech under the Cabilly I patent.²⁹ After the Cabilly II patent was issued in 2001, Genentech advised MedImmune that one of its products, Synagis®,³⁰ was covered by the Cabilly II patent and MedImmune owed royalties. In response, MedImmune filed suit for declaratory judgment against Genentech.³¹ MedImmune's claims of determination of

27. Recombinant Immunoglobulin Preparations, U.S. Patent No. 4,816,567 (filed April 8, 1983) (issued March 28, 1989).

28. Methods of Producing Immunoglobulin Vectors and Transformed Host Cells, U.S. Patent No. 6,331,415 (filed June 10, 1988) (issued Dec. 18, 2001). Celltech is the assignee and owner of U.S. Patent number 4,816,397 [hereinafter Boss Patent] for multi chain peptides or proteins and processes for their production. *MedImmune, Inc. v. Genentech, Inc.*, 427 F. 3d 958, 961 (Fed. Cir. 2005); Multichain Polypeptides or Proteins and Processes for their Production, U.S. Patent No. 4,816,397 (filed Nov. 14, 1984) (issued March 28, 1989). In a U.S. Patent and Trademark Office (PTO) interference hearing which took seven and a half years, the PTO gave the Boss Patent priority. *MedImmune*, 427 F.3d at 961. Genentech filed suit, and a district court urged Genentech and Celltech to go to mediation. *Id.* The parties settled and agreed that the Genentech patent had priority and entered into cross-licensing agreements. *Id.* The district court directed the PTO to issue the Cabilly II patent. *Genentech, Inc. v. Celltech Therapeutics, Ltd.*, 2001 U.S. Dist. LEXIS 3489, No. 98-3926 MMCCWDB, at *8 (N.D. Cal. March 16, 2001).

29. *MedImmune*, 427 F.3d at 962. MedImmune also was licensed with Celltech for the Boss Patent since 1998. *Id.*

30. Synagis® is indicated for the prevention of serious lower respiratory tract disease caused by a respiratory syncytial virus in pediatric patients, such as premature babies and other children with medical conditions, at high risk. RSV Prevention, <http://www.synagis.com/> (last visited Nov. 4, 2007). Over half a million babies have used Synagis since 1998. *Id.* Injectable Synagis® is MedImmune's "flagship product." *MedImmune, Inc.*, HOOVER'S COMPANY RECORDS, In-depth Record, Hoover ID 10176 (Jan. 9, 2007). Synagis® is classified as a humanized monoclonal antibody, or an animal antibody modified into a predominantly human one. Brief of Petitioner, *MedImmune, Inc. v. Genentech, Inc.*, No. 05-608, 2006 C.S. S. Ct. Briefs LEXIS 423 at *3 (May 15, 2006). Synagis® was the first monoclonal antibody successfully developed to combat an infectious disease. *Id.* For more on Genentech and its patents, see generally, David M. Dudzinski, *Reflections on Historical, Scientific, and Legal Issues Relevant to Designing Approval Pathways for Generic Versions of Recombinant Protein-Based Therapeutics and Monoclonal Antibodies*, 60 FOOD DRUG L. J. 143, 161-67 (2005).

31. *MedImmune, Inc. v. Genentech Inc.*, No. CV03-2567 MRP, 2003 U.S. Dist. LEXIS 23443, at *7 (C.D. Cal. Dec. 22, 2003). The district court dismissed MedImmune's antitrust and unfair competition claim on summary judgment. *Id.* at *35-36.

contractual obligations, patent unenforceability, patent invalidity, and non-infringement of the patent were allowed to go forth against Genentech, and the patent claims could go forward against City of Hope.³²

Genentech sought dismissal of all of these claims based on lack of subject matter jurisdiction.³³ The district court cited Article III of the Constitution, which authorizes the federal judiciary to hear cases and controversies.³⁴ The Declaratory Judgment Act requires an actual controversy between the parties.³⁵ Federal Circuit precedent was deemed by the district court to be controlling, and dictated that the case be dismissed for lack of subject matter jurisdiction³⁶ because MedImmune was a licensee in good standing.

MedImmune appealed, arguing that it met the requirements of the Declaratory Judgment Act, because if it stopped paying royalties, it could be sued.³⁷ Nonetheless, the Federal Circuit held that the district court did not err.³⁸ The dissent would have found no jurisdiction and would have transferred the case to the Court of Appeals for the Ninth Circuit.³⁹

32. *MedImmune, Inc. v. Genentech, Inc.*, No. CV03-02567 MRP, 2004 U.S. Dist. LEXIS 28678, at *12 (C.D. Cal. Feb. 18, 2004). Celltech was no longer a party. *Id.* The City of Hope is a California-based non-profit with a National Cancer Institute-designated Comprehensive Career Center. City of Hope and Genentech work collaboratively on projects which have resulted in life-saving antibodies. Initial Brief for Appellee-Respondent, *MedImmune, Inc. v. Genentech, Inc.*, No. 05-608, 2006 U.S. S. Ct. Briefs LEXIS 483, at *12 (July 26, 2006).

33. *MedImmune, Inc. v. Genentech, Inc.*, CV03-2567 MRP, 2004 U.S. Dist. LEXIS 28680, at *4 (C.D. Cal. April 26, 2004).

34. *Id.* at *2 (citing U.S. CONST. art. III).

35. 28 U.S.C. § 2201(a) (2006), which states in pertinent part:

In a case of actual controversy within its jurisdiction, . . . any court of the United States, upon the filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration, whether or not further relief is or could be sought. Any such declaration shall have the force and effect of a final judgment or decree and shall be reviewable as such.

Id.

36. *MedImmune*, 2004 U.S. Dist. LEXIS 28680, at *9, *13. The Federal Circuit had previously determined that “controversies over patent validity enforcement, and infringement would not be recognized while license agreements protected the licensee from suit.” *Id.* at *5.

37. *MedImmune, Inc. v. Genentech, Inc.*, 427 F.3d 958, 963 (Fed. Cir. 2005). MedImmune also argued that the settlement between Genentech was collusive and fraudulent. *Id.* at 965.

38. *Id.* at 969.

39. *Id.* at 971 (Clevenger, J., dissenting). The Ninth Circuit should determine whether the summary judgment was proper with the antitrust and unfair competition claims, according

The U.S. Supreme Court granted the petition for writ of certiorari⁴⁰ to decide whether Article III's limitation on federal court jurisdiction to cases and controversies,⁴¹ as reflected in the Declaratory Judgment Act,⁴² requires a patent licensee to terminate or breach the license agreement before seeking a declaratory judgment that the patent is invalid, unforeseeable, or not infringed.⁴³

Justice Scalia, in January 2007, writing for the majority, first observed that there was both a claim of patent invalidity and a contract claim.⁴⁴

Turning to the jurisdiction issue, the majority stated that the "case of actual controversy" language under the Declaratory Judgment Act refers to cases or controversies under Article III of the Constitution.⁴⁵ The Supreme Court observed that there would be an actual controversy if the licensee ceased to make required royalty payments, but if the royalty payments were continued, as in this case, would there be a case or controversy?⁴⁶

According to Supreme Court precedent, if the government, instead of a private party, threatened action, then a plaintiff would not have to expose himself to liability before bringing suit to challenge the governmental threat.⁴⁷ Concerning action by a private party, the Court examined the only Supreme Court precedent on point, *Altvater v. Freeman*,⁴⁸ which held that a licensee's failure to stop paying royalties

to the dissent. *Id.* For more on the Federal Circuit's decision, see, Laurence P. Colton and Nigamnarayan Acharya, *Intellectual Property*, 57 MERCER L. REV. 1135, 1141-42 (2006); Charles C. Gholz, *A Critique of Decent Opinions in Patent Interferences*, 88 J. PAT & TRADEMARK OFF. SOC'Y. 305, 338-39 (2006).

40. *MedImmune, Inc. v. Genentech, Inc.*, 546 U.S. 1169, 1169 (2006). See Kali N. Murray, *Rules for Radicals: A Politics of Patent Law*, 14 J. INTELL. PROP. L. 63, 79 (2006).

41. U.S. CONST. art. III.

42. See *supra* note 35.

43. *MedImmune, Inc. v. Genentech, Inc.*, 127 S. Ct. 764, 767 (2007).

44. *Id.* at 768-69. The licensing agreement called for royalties whether or not the patent is valid. *Id.* at 769.

45. *Id.* at 771.

46. *Id.* at 771-72.

47. *Id.* at 772-73 (citing *Terrace v. Thompson*, 263 U.S. 197 (1923)). A farmer challenged the Washington State Alien Land Law, which was held not to violate the Equal Protection Clause of the Fourteenth Amendment. *Id.* at 772. Justice Scalia observed that the plaintiff did not have to "bet the farm" to bring action. *MedImmune*, 127 S. Ct. at 772.

48. *Altvater v. Freeman*, 319 U.S. 359 (1943). The issue of patent validity could be raised in a counterclaim in a suit for infringement involving a patent for a cutout machine for shoe uppers. *Id.* at 360-63. The Court stated that "[a] controversy was raging," and the fact that royalties were paid did not make this a dispute of a hypothetical or abstract nature. *Id.* at 364.

did not preclude a finding of a case or controversy if the payments were involuntary or coercive. The respondent Genentech argued the common law rule that a party to a contract cannot both “challenge its validity and continue to reap its benefits.”⁴⁹ The Court stated, however, that “it is hard to see how the common law rule has any application here.”⁵⁰ According to the Supreme Court, if the respondents were correct that either the licensing agreement or the common law precluded suit, then the respondents would win on the merits, not that jurisdiction is defeated.⁵¹ The merits were left to the lower court on remand.⁵² Thus, a petitioner is not required to breach a license to seek declaratory judgment that a patent is invalid, unforeseeable, or non-infringed.⁵³ The judgment of the Federal Circuit was reversed and the case was remanded.⁵⁴

The lone dissenter, Justice Thomas, believed that the case in question was not a case or controversy within Article III of the Constitution.⁵⁵ *MedImmune* was a licensee in good standing, and thus it removed any threat of suit.⁵⁶

MedImmune now allows a licensee in good standing to challenge the validity of the licensed patent.⁵⁷ This tips the balance away from so-called patent trolls, who purchase patents solely to enforce them against others, and allows a licensee to challenge the patent’s validity while ethically not breaching the license agreement, which is, at least occasionally, forced on the licensee.⁵⁸ The merits of the agreement will be reached on remand.

49. *MedImmune*, 127 S. Ct. at 776. *MedImmune* pointed out that the license contains no promise by *MedImmune* not to sue. *Id.* Further, Genentech disclaims any warranty of patent validity. Reply Brief for Appellant-Petitioner, *MedImmune, Inc. v. Genentech Inc.*, No. 05-608, 2006 U.S. S. Ct. Brief LEXIS 739, at *24 (Aug. 30, 2006).

50. *MedImmune*, 127 S. Ct. at 777.

51. *Id.* at 776. Respondents also urged dismissal on a discretionary basis, that the Declaratory Judgment Act, 28 U.S.C. § 2201(a) (2006), allows a court to declare rights. *Id.* at 776. The Court observed, though, that a court is not required to do so. *Id.* The discretionary dismissal is for the lower court on remand. *Id.* at 777.

52. *Id.*

53. *Id.*

54. *Id.*

55. *MedImmune*, 127 S. Ct. at 777 (Thomas, J., dissenting).

56. *Id.* at 780. Justice Thomas also dissented on the issue of the contract claim, asserting that *MedImmune* did not raise and preserve one. *Id.* at 779. Further, according to Justice Thomas, *Altwater* was inapplicable. *Id.* at 781.

57. *Id.* at 777.

58. One week after this decision, the Supreme Court granted the petition for a writ of certiorari and also vacated and remanded *MedImmune*. *MedImmune, Inc. v. Centocor, Inc.*,

II. MICROSOFT V. AT&T

In a big win for Microsoft, the Supreme Court held on April 30, 2007, in *Microsoft Corp. v. AT&T Corp.*, that Microsoft was not liable for infringing AT&T's patent because Microsoft does not supply components of foreign-made competitors when it exports copies of Windows on master disks and encrypted software from the United States to be installed on foreign computers.⁵⁹ This decision, along with its ramifications for the software industry, will be discussed in this section.

AT&T owns patent number 32,580 (the '580 patent) relating to speech processing, and more particularly to digital speech coding arrangements.⁶⁰ In June 2001, AT&T filed suit, alleging that Microsoft directly, contributorily, and willfully both infringed and induced others to infringe claims of this patent, by working, using, offering to sell, or selling certain Microsoft products.⁶¹ Microsoft ships "golden master" disks with the Windows Operating System on them to foreign original equipment manufacturers (OEMs), and pursuant to a license, the OEMs from the master disk installs the operating system onto foreign-assembled computers. Similarly, Microsoft supplies the Windows Operating System code to foreign OEMs by sending an encrypted

127 S. Ct. 1118 (2007). The Federal Circuit in *Centocor* had similarly ruled that there was no case or controversy when the licensee of a patent was in compliance with the license agreement. See generally, Sasha Mayergoz et al., *2005 Patent Laws of the Federal Circuit*, 55 AM. U. L. REV. 1001, 1012-14 (2006).

59. *Microsoft Corp. v. AT&T Corp.*, 127 S. Ct. 1746, 1751 (2007). Microsoft is the world's number one software manufacturer, and ranks forty-ninth on the Fortune 500 ranking. *Microsoft Corp.*, Hoovers Company Records, In-Depth Records, Hoover ID 14120 (May 1, 2007). AT&T ranks twenty-seventh on the Fortune 500. *AT&T Inc.*, Hoovers Company Records, In-Depth Records, Hoover ID 11379 (May 1, 2007).

60. Initial Brief-Appellee AT&T, *Microsoft Corp. v. AT&T Corp.*, No. 05-1056, 2007 U.S. S. Ct. Brief LEXIS 57, at *19 (Jan. 23, 2007). The invention claimed in the '580 patent was for digital speech compression, which transmits speech by converting it into digital code and decodes it at its destination. This technology is recognized as a landmark. The patent expired in 2001. *Id.*

61. *AT&T Corp. v. Microsoft Corp.*, 01- Cir. 4872 (WHP), 2003 U.S. Dist. LEXIS 10716, at *3 (S.D.N.Y. June 24, 2003). The district court granted Microsoft's motion for partial summary judgment, limiting AT&T's damages to those occurring on or after April 2, 1999, when AT&T sent a letter to Microsoft to satisfy the actual notice requirement of the Patent Act. *AT&T Corp. v. Microsoft Corp.*, 290 F. Supp. 2d 409, 415 (S.D.N.Y. 2003). AT&T's motion for partial summary judgment was granted on Microsoft's affirmative defenses of implied license and equitable estoppel. *AT&T Corp. v. Microsoft Corp.*, 01 Liu. 4872, 2004 U.S. Dist. LEXIS 1214, at *17 (S.D.N.Y. Feb. 3, 2004). AT&T's motion for partial summary judgment on Microsoft's affirmative defense and counter claim of inequitable conduct was also granted. *AT&T Corp. v. Microsoft Corp.*, 01 Civ. 4872, 2004 U.S. Dist. LEXIS 1648, at *22 (S.D.N.Y. Feb. 9, 2004).

electronic transmission of object code, which is decrypted and installed by the foreign OEMs. According to AT&T, the golden master disks and the encrypted electronic transmissions infringe claims of AT&T's '580 patent.⁶²

Microsoft moved for partial summary judgment, claiming that what it does is not an infringement.⁶³ The Patent Act states that supplying from the United States all or a substantial portion of the components of a potential invention, where such components are uncombined in whole or in part to actively induce the combination of the components outside the United States in a manner that would infringe the patent, constitutes infringement.⁶⁴ Microsoft thus moved, unsuccessfully, for summary judgment, contending both that the object code and software are not components, but rather intangible information, and that the copies are not supplied from the United States.⁶⁵

Microsoft appealed, and in July 2005, the Court of Appeals for the Federal Circuit affirmed.⁶⁶ The appeals court deemed the software to both be a component of a patented invention,⁶⁷ and to be supplied from the United States.⁶⁸ Judge Rader dissented on the extraterritorial expansion of United States patent law.⁶⁹ The dissenter found nothing in the statute to attach liability for manufacturing activities occurring

62. *See supra* note 60.

63. *AT&T Corp. v. Microsoft Corp.*, 01 Civ. 4872, 2004 U.S. Dist. LEXIS 3340, at *4 (March 5, 2004).

64. 35 U.S.C. § 271(f) (2006) states:

(1) Whoever without authority supplies or causes to be supplied in or from the United States all or a substantial portion of the 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 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 or causes to be supplied in or from the United States any component of a patented invention that is especially made or especially adapted for use in the invention and not a staple article or commodity of commerce suitable for substantial noninfringing use, where such component is uncombined in whole or in part, 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.

Id.

65. *Microsoft*, 2004 U.S. Dist. LEXIS 3340, at *6.

66. *AT&T Corp. v. Microsoft Corp.*, 414 F.3d 1366 (Fed. Cir. 2005).

67. *Id.* at 1369.

68. *Id.* at 1370. This was a question of first impression for the appeals court. *Id.* at 1369.

69. *Id.* at 1373 (Rader, J., dissenting).

entirely abroad.⁷⁰ According to the dissent, AT&T can protect itself by obtaining and enforcing foreign patents.⁷¹

Microsoft appealed, and the U.S. Supreme Court granted a writ of certiorari.⁷² The Court was asked to decide whether the software code was a patented invention under the Patent Act,⁷³ and if so, is the transmission of that object code from the United States to a location outside the country a supply of the component?⁷⁴ At oral argument, counsel for Microsoft argued that the master disk was not a component, and the information on the master disk was useless to the computer until it was made into a physical object which the computer could read.⁷⁵ Counsel for AT&T contended that the provision of the Patent Act was violated when the object code was supplied from the United States.⁷⁶

The Supreme Court agreed with Microsoft that the export of master disks and encrypted software does not infringe AT&T's U.S. patent.⁷⁷ Justice Ginsburg, writing for the Court and joined by Justices Scalia, Kennedy, and Souter, stated that there is no infringement when a patented product is made and sold in another country,⁷⁸ but there is an exception providing for infringement when one supplies from the United States a patented invention's components for combination abroad.⁷⁹ Justice Ginsburg acknowledged that there are arguments on both sides of the issue of extending the Patent Act exception to the allegedly infringing conduct in this case.⁸⁰ The Court discussed *Deep South Packing Co. v. Laitrom Corp.*, which held that it was "not an

70. *Id.* at 1375.

71. *Id.* at 1376. See generally, Christopher Rogers, Case Note, *AT&T v. Microsoft: Is This a Case of Deep South Déjà Vu?* 59 ME. L. REV. 191 (2007); Nicholas F. Rericha, Case Note, *AT&T Corp. v. Microsoft Corp.: Closing the Deep South Loophole (For Good This Time)*, 31 DAYTON L. REV. 551 (2006).

72. *Microsoft Corp. v. AT&T Corp.*, 127 S. Ct. 467, 467 (2006).

73. *Microsoft Corp. v. AT&T Corp.*, 127 S. Ct. 1746, 1753 (2007).

74. 35 U.S.C. § 271(f) (2006).

75. *Microsoft Corp. v. AT&T Corp.*, No. 05-1056, 2007 U.S. Trans LEXIS 13, at *6, (Feb. 21, 2007). The patent covers a program which has to be "married" to a computer. *Id.* at *11. The United States as *amicus curiae* agreed, stating that the copy or the hard drive is the component. *Id.* at *19.

76. *Id.* at *39. Counsel acknowledged that the statute does not reach overseas activities. *Id.* at *43. Further, counsel could not think of any other machine than a computer that has a component that is not a physical thing. *Id.* at *47.

77. *Microsoft*, 127 S. Ct. at 1759-60. The decision of the Court of Appeals for the Federal Circuit was reversed. *Id.*

78. *Id.* at 1781.

79. 35 U.S.C. § 271(f) (2006).

80. *Microsoft*, 127 S. Ct. at 1751.

infringement to make or use a patented product outside of the United States.”⁸¹ After *Deep South*, Congress enacted the provision of the Patent Act which is in dispute in the instant case.⁸²

First addressing the question of software as a “component,” the Court had to decide at what stage in a transaction software becomes a component.⁸³ Because Congress included only combinable components in the patent statute,⁸⁴ but not also “information,” “instructions,” or “tools” from which the components could be generated, the Court concluded that only a copy of Windows is a component.⁸⁵

Concerning the second question of whether Microsoft supplied components from the United States, the Court concluded that a conventional reading of the statute requires a negative answer.⁸⁶ The Court agreed with the dissent in the Federal Circuit,⁸⁷ that “supplying” means a separate activity from a later copying or reproducing in a foreign locale.⁸⁸

AT&T contends that this ruling leaves a loophole for software manufactures, who may quickly and cheaply send the master disk or code from the United States, instead of making installation copies in the United States.⁸⁹ The Court stated that it is up to Congress to close the

81. *Deep South Packing Co. v. Laitram Corp.*, 406 U.S. 518, 527 (1972). *Deep South*’s foreign purchases did not infringe as they assembled and used machines allegedly infringing on Laitrom’s patent claims outside the United States. *Id.* at 526-27.

82. 35 U.S.C. § 271(f) (2006); *Microsoft*, 127 S. Ct. at 1752.

83. *Microsoft*, 127 S. Ct. at 1756. “Component” is commonly defined as a “constituent part,” “element,” or “ingredient.” *Id.* at 1755 n.11.

84. 35 U.S.C. § 271(f) (2006).

85. *Microsoft*, 127 S. Ct. at 1756. The Court did not decide whether software in the abstract or the intangibles could ever qualify as a component. *Id.* at 1756 n.13.

86. *Id.* at 1756.

87. See *supra* notes 64-71 and accompanying text. Microsoft issued a press release following the decision which stated in pertinent part:

Today’s Supreme Court decision is important for the entire information technology industry, adding clarity and balance to our patent system. This decision promotes a global patent system that works. The ruling ensures that U.S. courts, like courts elsewhere, can respect the patent laws of other countries, helping promote cooperation among patent systems worldwide.

Microsoft statement on U.S. Supreme Court decision in AT&T case, <http://www.microsoft.com/Presspass/press/2007/apr07/04-30ATTTPR.msp> (last visited Oct. 19, 2007).

88. *Microsoft*, 127 S. Ct. at 1756-57. The Court did not address Microsoft’s contention that a disk sent from the United States used to install software on a foreign computer would not give rise to liability for infringement if the disk were removed after infringement. *Id.* at 1757 n.14. Justice Ginsburg did not reach this issue, *id.*, but Justice Alito’s concurrence did not include note 14, *id.* at 1760 (Alito, J., concurring).

89. *Id.* at 1759. Microsoft argued that a contrary ruling, however, would either put software companies on a different playing field than other industries, or expand the

loophole if Congress deems such action appropriate.⁹⁰ The statutory exception does not apply to design tools such as blueprints, schematics, templates, and prototypes, as the Court would not put the master disks and encrypted software which Microsoft exported into a separate category.⁹¹

Justice Alito concurred, joined by Justices Thomas and Breyer.⁹² The concurrence reached the same conclusion, but by different reasoning.⁹³ Agreeing that a “component” must be something physical, the concurrence reasoned that since no physical object supplied from the United States was combined with foreign computers, there is no infringement.⁹⁴

Justice Stevens dissented, arguing that the holding of the Court of Appeals for the Federal Circuit is closer to the intent of Congress in enacting the provision in question.⁹⁵ According to the dissent, software is a component.⁹⁶ Thus, concerning patents on computer software, it is more important than ever that patent holders obtain and enforce foreign patents. “Foreign law alone, not United States law, currently governs the manufacture and sale of components of patented inventions in foreign countries.”⁹⁷

III. *KSR v. TELEFLEX*

In a decision issued by the Supreme Court on the same day as *Microsoft Corp. v. AT&T Corp.*,⁹⁸ the Court issued a unanimous landmark decision in *KSR International Co. v. Teleflex Inc.* and broadened the obviousness inquiry beyond what the Court of Appeals for the Federal Circuit had been applying.⁹⁹ Where *Microsoft* dealt with

jurisdiction of U.S. Patent Law. Reply Brief for Appellant-Petitioner, *Microsoft Corp. v. AT & T Corp.*, No. 05-1056, 2007, U.S. S. Ct. Brief LEXIS 95, at *25 (Feb. 14, 2007).

90. *Microsoft*, 127 S. Ct. at 1759. Congress realizes how easily software and other media can be transmitted and copied. *Id.* at 1760.

91. *Id.* at 1759.

92. *Id.* at 1760 (Alito, J., concurring). As with Justice Ginsburg, the concurrence excluded footnote 14. *See supra* note 88. Chief Justice Roberts took no part in the consideration or decision of this case.

93. *Id.* at 1760.

94. *Microsoft*, 127 S. Ct. at 1761. Since the code on the master disk supplied from the U.S. is not a component, then not even a copy of the master disk is a component. *Id.* at 1762.

95. *Id.* at 1762 (Stevens, J., dissenting).

96. *Id.* at 1763 (Stevens, J., dissenting).

97. *Id.* at 1749.

98. *See supra* note 59 and accompanying text.

99. *KSR Int'l Co. v. Teleflex Inc.*, 127 S. Ct. 1727, 1746 (2007).

newer technology of computer software and its export,¹⁰⁰ *KSR* deals with the manufacturing technology of an automobile's automatic gas pedal.¹⁰¹ However *KSR*'s ruling on the patent requirement of nonobviousness has implications for many industries in many sectors.¹⁰²

The Patent Act of 1952 added the statutory requirement of nonobviousness,¹⁰³ but this requirement for patentability goes back to the Supreme Court decision of *Hotchkiss v. Greenwood* in 1850.¹⁰⁴ The Supreme Court articulated a test for determining nonobviousness in 1966 in *Graham v. John Deere*.¹⁰⁵ Forty-one years later,¹⁰⁶ the U.S. Supreme Court decided another landmark case on nonobviousness, *KSR International Co. v. Teleflex Inc.*, wherein the Court reversed the Court of Appeals for the Federal Circuit and provided an expansive flexible approach to obviousness, which promotes the progress of useful arts.¹⁰⁷

Plaintiff Teleflex,¹⁰⁸ through its subsidiary, Technology Holding

100. See *supra* Part II.

101. *KSR*, 127 S. Ct. at 1735-36.

102. See 35 U.S.C. § 103 (2006).

103. 35 U.S.C. § 103 (2006), which states in part:

(a) A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title [35 U.S.C. § 102], 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. Patentability shall not be negated by the manner in which the invention was made.

Id.

104. See *Hotchkiss v. Greenwood*, 52 U.S. 248, 267 (1850).

105. *Graham v. John Deere*, 383 U.S. 1, 17-18 (1966). First the court must determine the scope and content of the prior art. *Id.* at 17-18. Then the court must determine the differences between the prior art and the patent claim in question. *Id.* Then the court must determine the level of ordinary skill in the pertinent art. *Id.* Also, the court must evaluate evidence of secondary considerations. *Id.* The same day, the Court also decided *Calmar, Inc. v. Cook Chem. Co.*, 383 U.S. 1 (1966), and *U.S. v. Adams*, 383 U.S. 39 (1966).

106. The Supreme Court decided three patent cases involving nonobviousness in between *Graham* and *KSR*. *Anderson's-Black Rock, Inc. v. Pavement Salvage Co.*, 396 U.S. 57 (1969); *Dann v. Johnston*, 425 U.S. 219 (1976); *Sakraida v. Ag Pro, Inc.*, 425 U.S. 273 (1976); S. Jafar Ali, *You Suggest What? How KSR Returned Bite to Nonobviousness*, 16 FED. CIR. B. J. 247 at n.12 (2006-07).

107. *KSR*, 127 S. Ct. at 1727. This decision was proper, and should lead to an improvement in patent examination quality, according to one author. Anard G. Patel, *KSR v. Teleflex and Motivation to Combine*, 80 J. PAT & TRADEMARK OFF. SOC'Y. 1077, 1084 (2006).

108. Teleflex Inc. is a publicly traded company that has many product lines and operations which include the sale of marine, auto, and industrial products. In 2005, it sold its automotive pedal systems to an affiliate of Sun Capitol Partners. Teleflex Inc., Hoover

Corporation, holds patents used in the automotive industry, including an adjustable pedal assembly with electronic throttle control. Specifically, patent number 6,237,565 (the '565 patent), called the Engeleau patent after its inventor, relates to a vehicle control pedal assembly having an adjustable mechanism which rotates and provides input to the electronic throttle control.¹⁰⁹

Defendant KSR is a direct competitor of Teleflex, and also is a manufacturer and supplier of auto parts, including adjustable pedal systems.¹¹⁰ KSR was selected by General Motors to supply adjustable pedal assemblies for certain vehicles, and plaintiffs allege that these pedal systems infringe a claim of the '565 patent.¹¹¹ The defendant KSR answered, arguing both that there is no infringement and that the '565 patent is invalid under the Patent Act because it would have been obvious to someone with ordinary skill in the art of designing pedal assemblies.¹¹²

The district court applied the test of *Graham v. John Deere*¹¹³ for obviousness, and granted summary judgment for KSR.¹¹⁴ The district court concluded that a hypothetical person with an undergraduate degree in mechanical engineering or its equivalent in industry experience, with familiarity with pedal control systems, would have found the improvement in the only claim of the '565 patent at issue

Company Records, In-Depth Records, Hoover ID 12375 (May 1, 2007).

109. Adjustable Pedal Assembly with Electronic Throttle Control, U.S. Patent No. 6,237,565 (filed Aug. 22, 2000) (issued May 29, 2001). Claim is for a vehicle control pedal apparatus comprising:

a support adapted to be mounted to a vehicle structure; an adjustable pedal assembly having a pedal arm moveable in fore and aft directions with respect to said support; a pivot for pivotally supporting said adjustable pedal assembly with respect to said support and defining a pivot axis; and an electronic control attached to said support for controlling a vehicle system; said apparatus characterized by said electronic control being responsive to said pivot for providing a signal that corresponds to pedal arm position as said pedal arm pivots about said pivot axis between rest and applied positions wherein the position of said pivot remains constant while said pedal arm moves in fore and aft directions with respect to said pivot.

Id. at [5]–[6].

110. *Teleflex Inc. v. KSR Int'l Co.*, 298 F. Supp. 2d 581, 584 (E.D. Mich. 2003).

111. *Id.* at 584-85. Specifically, Teleflex claims that claim four is infringed. *Id.* at 584. Two other patents were alleged to have their claims infringed, but the parties stipulated to the dismissal of these claims. *Id.* at 585.

112. *Id.*

113. *Id.* at 587-96.

114. *Id.* at 596.

obvious when compared to the prior art.¹¹⁵ Thus the district court found the claim in question invalid for obviousness, agreeing with KSR.

On appeal, the Court of Appeals for the Federal Circuit reversed, holding that the district court did not apply the correct teaching-suggestion-motivation test.¹¹⁶ Instead, according to the appeals court, the district court applied an incomplete teaching-suggestion-motivation test,¹¹⁷ and the district court should have made specific findings showing a teaching, suggestion, or motivation to combine prior art teachings in the particular manner claimed by the patent at issue.

KSR appealed, arguing that the teaching-suggestion-motivation test applied by the Federal Circuit has no basis in either the text of the Patent Act or in 150 years of precedent of the Supreme Court.¹¹⁸ According to KSR, the teaching-suggestion-motivation test is actually based on a rejection of the Supreme Court's precedents.¹¹⁹ Teleflex, however, argued that the Court should not overturn the "flexible" standard for obviousness used by the Court of Appeals for the Federal Circuit for four decades, the settled suggestion-teaching-motivation inquiries.¹²⁰

The U.S. Supreme Court reversed the Court of Appeals for the Federal Circuit¹²¹ and remanded the case. The Supreme Court began by rejecting the rigid approach used by the appeals court in applying the teaching-suggestion-motivation test.¹²² Instead, Supreme Court precedent including *Hotchkiss v. Greenwood* and *Graham v. John Deere* reflect a "functional" yet "broad" approach.¹²³ Further, a patent for a combination which only unites old elements according to known methods is likely to be obvious.¹²⁴ "[A] Court must ask whether the

115. *Id.*

116. *Teleflex, Inc. v. KSR Int'l Co.*, 119 Fed. Appx. 282, 288 (Fed. Cir. 2005).

117. *Id.* at 290. See generally, James Skelly, Legal Update, *Teaching-Suggestion-Motivation Under Review: Developments in KSR International Co. v. Teleflex, Inc.*, 13 B.U. J. SCI. & TECH. L. 107 (2007); Michael Astorino, *Obviously Troublesome: How High Should the Standard be for Obtaining a Patent*, 89 J. PAT. & TRADEMARK OFF. SOC'Y. 239 (2007).

118. Initial Brief of Appellant KSR, *KSR Int'l Co. v. Teleflex Inc.*, No. 04-1350, 2006 U.S. S. Ct. Briefs LEXIS 702, at *24.

119. *Id.* at *54.

120. *Id.* at *9.

121. *KSR Int'l Co. v. Teleflex Inc.*, 127 S. Ct. 1727, 1746 (2007).

122. *Id.* at 1735.

123. *Id.* at 1739.

124. *Great Atl. & Pac. Tea Co. v. Supermarket Equip. Co.*, 340 U.S. 147, 152 (1950). This case predates the 1952 Patent Act and *Graham v. John Deere*, but the concept remains valid. The cases decided with and after *Graham* also reflect this principle. See *KSR*, 127 S. Ct. at 1731 (citing *United States v. Adams*, 383 U.S. 39, 40 (1966); *Anderson's-Black Rock*,

improvement is more than the predictable use of prior art elements according to their established functions.”¹²⁵

The Court acknowledged that following the principles for determining obviousness may be more difficult in other cases than in *KSR*.¹²⁶ It is relatively easy to determine obviousness when one known element is substituted for another, or a known technique is applied to the prior art. In other cases involving interrelated teaching of multiple patents, however, the effects of demands known to the designers or present in the marketplace, and the background possessed by a person ordinarily skilled in the art may have to be ascertained.¹²⁷ The helpful insight of the teaching-suggestion-motivation test should not have become a rigid mandatory formula.¹²⁸

The Court concluded that “[w]e build and create by bringing to the tangible and palpable reality around us new works based on instinct, simple logic, ordinary inferences, extraordinary ideas, and sometimes even genius. These advances, once part of our shared knowledge, define a new threshold from which innovation starts once more.”¹²⁹ Since *KSR* showed convincing evidence that the improvement to the gas pedal design was obvious to one of ordinary skill in the prior art, the appeals court was reversed and the case was remanded.¹³⁰

CONCLUSION

The United States Supreme Court decided three major patent cases in 2007, reversing the Court of Appeals for the Federal Circuit in each. Independently, each case is important, and together, the Court has changed the face of patent law. The first, *MedImmune, Inc. v. Genentech, Inc.*,¹³¹ reasonably allows a licensee in good standing to challenge the validity of the underlying patent. In *Microsoft Corp. v. AT&T Corp.*,¹³² an important decision for the software industry, the Court held that it is not an infringement to supply from the United States a master disk or encrypted software, from which copies are made

Inc. v. Pavement Salvage Co., 396 U.S. 57 (1969); *Sakraida v. Ag Pro, Inc.*, 425 U.S. 273 (1976)).

125. *KSR*, 127 S. Ct. at 1731.

126. *Id.*

127. *Id.* Courts should explicitly state this analysis. *Id.* at 1731-32.

128. *Id.* at 1731.

129. *Id.* at 1746.

130. *Id.*

131. *See supra* Part I.

132. *See supra* Part II.

overseas to be installed on foreign computers. Finally, and perhaps the case with the broadest applications, the Court in *KSR International Co. v. Teleflex Inc.*,¹³³ turned the Court of Appeals for the Federal Circuit from the rigid teaching-suggestion-motivation test to a more flexible test in line with the Court's precedent for obviousness. As a consequence of these cases, licensees do not have to break the license to contest the underlying patent. In turn, the power of so-called "patent trolls" has been weakened, registering the patent in overseas patent offices becomes much more important, and innovation is encouraged as obvious improvements over the prior art will not be patentable.

133. *See supra* Part III.