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Some Recent Supreme Court Opinions



By Ariel Rogson, Marger Johnson & McCollom

In recent years, many people have opined that the U.S. Patent & Trademark Office has been allowing too many patents of low quality and questionable validity. Some open-source advocates, such as Richard Stallman, believe that software patents threaten free software generally. Low-quality patents would just be one example of how patents threaten free software.

In *KSR International Co. v. Teleflex Inc.*, the Supreme Court addressed the test that has been used in determining whether a patent application is “obvious.” The statute in question, 35 U.S.C. § 103(a), says, “a patent may not be obtained though the invention is not identically disclosed or described ... 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.” In other words, a patent should not be granted if the innovation would be apparent to someone in the field.

Prior to this case, the Court of Appeals for the Federal Circuit—which is responsible for most patent appeals—had established a test to be used in deciding whether a patent application satisfies the requirement of obviousness. Before an Examiner could reject a patent, the Examiner had to show that the elements of the invention were known in the art before the patent application was filed, and the Examiner needed to show a “teaching, suggestion or motivation” (TSM) for combining the prior art. In a nutshell, the Supreme Court held that this test was too restrictive, resulting in too many patents that were obvious. The Supreme Court said that it was inappropriate to allow a patent on an advance that lacked any real innovation.

Obvious to whom?

Some parties who patent software concepts are concerned that this case will make it more difficult to get patents issued. After all, most software is about automating processes that people have

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thought up at some point. As a simplistic example, the software that controls an automated teller machine does not do much more than what a bank teller would do manually before approving a customer's request for cash. Some worry that automation of such processes would now be considered "obvious." But I expect the implications of this case to be less severe than this prognostication.

Part of the statute is to determine whether the invention would be obvious to "a person having ordinary skill in the art." Determining when someone is "a person having ordinary skill in the art" is thus important in deciding whether an invention is "obvious." For example, if the invention is one that could be implemented by someone who just earned an undergraduate degree in computer science, then "a person having ordinary skill in the art" might be a college graduate. On the other hand, if the technology requires a great deal of advanced understanding, the standard would be set significantly higher. For example, analyzing a claim to software implementing a new sorting algorithm involves a different standard than analyzing a claim to software implementing microcode for a newly designed processor. This hypothetical person varies depending on the invention.

Adding to the problem of identifying whether an invention is obvious are generally prevalent notions among software engineers that their efforts are "obvious" to them and that software should be free for all. The idea that software should be free for all is not relevant to the question of whether software is patentable, but it is relevant to determining the best use of a patent once issued. And as just discussed, the question is whether the invention is obvious to "a person having ordinary skill in the art." Whether the inventor, in hindsight, thinks his invention is obvious is not an important line of inquiry.

The Supreme Court also acknowledged that if the reference "teaches away" from the invention, this fact supports a conclusion of non-obviousness. In other words, if the prior art itself suggests that the invention would not be obvious, this is a relevant fact. In KSR, this fact was absent. (Although not critical to the Supreme Court's decision, in KSR, the cited prior art was better than the prior art before the Examiner during the examination of the patent.)

Changes to business

Will this case have any practical impact on business? I think the answer is "yes, but not that much." The Patent & Trademark Office has been issuing obviousness rejections in increasing frequency of late, almost anticipating the Supreme Court's decision. Here's how I think it will affect software businesses:

- Once the Patent & Trademark Office has distributed detailed instructions to its examiners in how to use this case, I think we can expect to see this case cited in rejections.
- This case will likely make prosecution a more expensive and more time-consuming proposition. Businesses may want to consider how best to invest resources in patent prosecution. It might be worthwhile to allocate resources to inventions that are more central to the business or more clearly non-obvious.
- The implications of this case are not limited to prosecuting new patent applications. Existing patent applications are subject to the analysis in this case, and existing patents are subject to potential invalidation under this case. Licensees and infringers might ask the Patent Office to reexamine existing patents, or seek to invalidate patents in court.
- Depending on whether you are a patent holder, someone offered a license, or someone accused of infringement, this decision might be a help or a hindrance. An accused infringer might challenge a patent as obvious, especially if the accused infringer has better prior art than the Patent & Trademark Office considered during examination of the patent application.
- Courts can decide that a patent is invalid as obvious on summary judgment, without a trial.

Infringement outside the U.S.

In *Microsoft Corp. v. AT&T Corp.*, the Supreme Court addressed the question of whether U.S. law can be applied in a case where the finished product was assembled outside the U.S.

AT&T held a patent (Reissue Patent RE 32,580) on a digital speech coder. Microsoft produced software that digitally encoded and compressed recorded speech. Microsoft had conceded that installing its software on computers in the U.S. infringed AT&T's patent, and that licensing copies of its software to U.S. computer manufacturers induced infringement of the AT&T patent.

Microsoft had also supplied foreign computer manufacturers with golden masters of the software. The foreign computer manufacturers copied the golden masters and installed the copies on computers that were sold abroad. AT&T argued that this activity also infringed the patent. Not surprisingly, Microsoft disagreed.

There is a section of U.S. law—35 U.S.C. § 271(f)—stating that if a party supplies components of a patented invention that is combined outside the U.S., supplying the component infringes the patent. The central question in this case was, as the foreign computer manufacturers installed copies of the golden masters (as opposed to the golden masters themselves), did the installation of the copies

infringe the AT&T patent? Would Microsoft have to pay damages on non-U.S. sales of the copies? The Supreme Court sided with Microsoft, holding that even though the golden masters were not themselves installed, Microsoft did not infringe the AT&T patent and damages could not be assessed on the foreign-made copies.

Implications for software manufacturers

Despite the significant stakes (given the named parties) involved in this case, the implications for software manufacturers are relatively minor. This case does not change existing law. As the Supreme Court stated, if AT&T wanted to prevent copying in foreign countries, AT&T should have obtained and enforced foreign patents. Thus, software manufacturers will not infringe U.S. Patents if they export software on master discs, provided the master discs are copied and the copies of the software are installed on computers.

But there are some caveats:

A foreign patent might mean that such activity infringes some party's rights: U.S. law is not the only law that can be applied. U.S. patent applicants should consider applying for foreign patents on key inventions.

Congress might change U.S. law to make illegal the actions taken by Microsoft. The statute in question in this case was added by Congress in response to an earlier case revealing a perceived gap in U.S. law. The Supreme Court indicated that providing a remedy to AT&T in this case would be the responsibility of Congress. If Congress changes the law, actions such as those taken by Microsoft in this case might eventually be prohibited or subject to assessment of damages.

The AT&T patent did not include claims to software embodied on a computer-readable medium (known as Beauregard claims). I question whether the result might have been different had the AT&T patent included a Beauregard claim. In that situation, Microsoft might have been found to infringe the AT&T patent by exporting of the golden masters, and been liable for all the damages that flowed from that act.

In conclusion, I think that based on these two cases, the world has not changed as much as the doomsayers are predicting. We should continue to watch how the U.S. Patent & Trademark Office and the courts react to these decisions. Initially, it seems that patents are still obtainable, but may require more time, energy and resources to obtain since the Supreme Court has ostensibly tightened the rules regarding what is patentable. And U.S. companies that send their software outside the U.S. for installation may need to be more careful about the logistical details so that they do not infringe a U.S. or foreign patent.

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