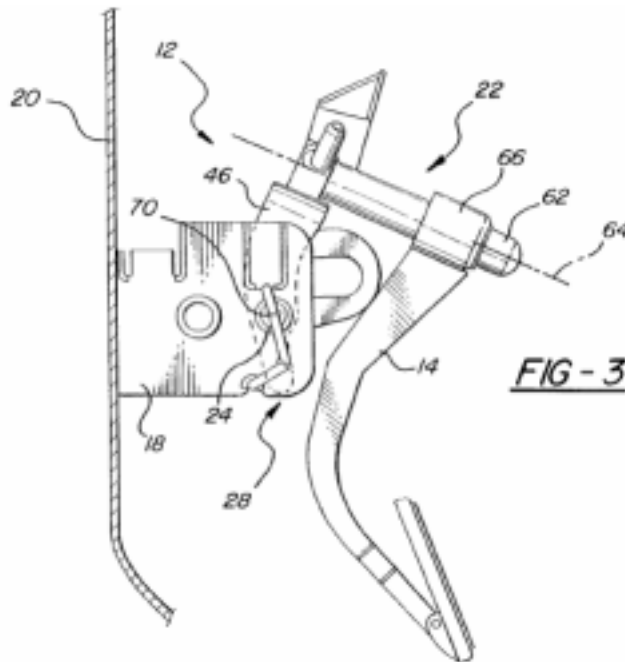


SUPREME COURT MAKES IT HARDER TO OBTAIN VALID PATENTS
Supreme Court Ruling on “Obviousness” Creates Greater Uncertainty in the Patent World
Supreme Court in a Time Machine Back to 1966?

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On April 30, 2007, the U.S. Supreme Court issued a highly-anticipated ruling on an important legal question – what makes an invention “obvious” and therefore unpatentable? Rather than clarifying the law, the Supreme Court struck down a lower appeals court’s test and reverted to a state of the law that existed in 1966, which expressed an “expansive and flexible approach” to considering obviousness. *KSR International Co. v. Teleflex Inc. et al.*, 550 U.S. ____ (2007).



According to the Supreme Court, the Court of Appeals for the Federal Circuit (CAFC), which hears appeals in all patent cases, should not have been so rigid in considering the obviousness of an invention for an automobile accelerator pedal. The CAFC had ruled that a District Court was not strict enough in applying the “teaching, suggestion or motivation” (TSM) test when it granted summary judgment that the pedal invention was obvious. Under this test, a patent claim is only proved obvious if some motivation or suggestion to combine prior art teachings can be found in the prior art.

The April 30, 2007, unanimous Supreme Court ruling called the Federal Circuit’s teaching-suggestion-motivation (TSM) test a helpful insight for determining obviousness, but said that it

should not be used as a mandatory formula that limits the expansive obviousness inquiry under the case of *Graham v. John Deere Co.*, 383 U.S. 1 (1966).

The *KSR vs. Teleflex* case specifically involved patents that involve combining two existing technologies, and deciding when that combination is not obvious. The Supreme Court rejected any sort of “narrow, rigid” reading of what factors should be considered in determining obviousness. Instead, the court allowed that many factors, such as market demand for a combination of technologies, may lead to a conclusion that an invention is obvious.

Some patent lawyers think that *KSR v. Teleflex* is likely to mean two things in the short term: (1) it will be harder to obtain a valid patent from the U.S. Patent and Trademark Office, because examiners will rule more inventions obvious and unpatentable during patent examination, and (2) more patents will be challenged in the courts as obvious and invalid, likely resulting in more litigation and greater difficulty in enforcing patents – even good patents.

Other patent lawyers think that the decision will bring an improvement to the patent system for these reasons: (1) there may be a decline in the large numbers of low quality, “commodity” patents filed by larger companies; (2) this decline will bring a welcome relief to the U.S. Patent and Trademark Office, which has been inundated by such commodity filings; this should improve patent examination quality, (3) high quality patents directed to significant advances, beyond that of ordinary innovation, will become much more valuable, and (4) any patent that survives the expansive obviousness test may become unassailable.

What Makes an Invention “Obvious” and Unpatentable?

The basic rationale of nonobviousness to obtain a patent seems reasonable – there should be some threshold level of innovation or inventiveness in order to enjoy the benefits of a patent. The implications of infringing a patent can be very costly to a business, even put a company out of business. Consider the recent situation with Vonage, which as of this article is at risk of going out of the business from infringing patents of Verizon relating voice-over-IP (VoIP) technology.

The question of “how much invention is needed to get a patent” has not proven to be one of precise legal definition.

The Supreme Court’s 1966 decision of *Graham v. John Deere Co.* has for several decades been the “gold standard” for determining obviousness. That earlier decision requires an “objective analysis” of the question of obviousness:

Under [the U.S. Patent Law, 35 U.S.C.] §103, the scope and content of the prior art are to be determined; differences between the prior art and the claims at issue are to be ascertained; and the level of ordinary skill in the pertinent art resolved. Against this background the obviousness or nonobviousness of the subject matter is determined. Such secondary considerations as commercial success, longfelt but unsolved needs, failure of others, etc., might be utilized to give light to the circumstances surrounding the origin of the subject matter sought to be patented.

Although the *Graham v. John Deere Co.* decision is supposed to be “objective,” in practice the analysis has proven difficult. The *Graham v. John Deere Co.* decision itself came as a result of years of confusion in the courts about the test of obviousness. That confusion results, in large part, because of the arguably *personal and subjective* nature of the concept of obviousness.

The basic requirement that an invention be “nonobvious” did not originate with the Supreme Court in 1966; the requirement is set forth in the patent laws created by Congress in 1952 (35 U.S.C. § 103). This section of the patent law states that a patent shall not be granted 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 the subject matter pertains. This law packs a lot of subtlety and fantastically seems to call for reading the mind of an imaginary person.

What is meant by an “objective” test for nonobviousness? This means that a court (judge or jury) is not supposed to rule on the basis of what they *personally* think is obvious, but what they *objectively* think a hypothetical person “skilled in the art” would think is obvious. In other words, judges and jury must put themselves *inside the head* of an imaginary person of “ordinary skill in the art” when considering if an invention is obvious or not. Mind you, this is not inside the head of the inventor, but inside the head of some imaginary, hypothetical person who works in the technical field to which the invention pertains. It is hard enough to read the mind of a real person – how do you read the mind of an imaginary person?

This so-called objective test is very difficult to apply – people cannot easily remove their own biases, experiences, and backgrounds from a legal consideration and put themselves inside the head of this “person having ordinary skill in the art.”

When Congress in 1952 codified the “obviousness” test for patentability, it regrettably did not provide any specific guidelines as to what exactly was meant, and left it to the courts to wrestle with the idea. The result has been a wide variety of different tests and subtests over the years, ranging from the requirement that a patentable invention must result from a “flash of genius” to the more recent CAFC test of “teaching, suggestion, or motivation.” Under our constitutional system of government, the courts (such as the Supreme Court) are not the best agencies for making policy determinations that affect the broader society. Courts are inevitably thrust into that role from time to time, often because of Congressional (and political) inaction or inertia.

In the *KSR v. Teleflex* case, the U.S. Supreme Court has arguably made a policy ruling by saying in effect that, whatever obviousness is, it is *not* a rigid application of the TSM test from the CAFC. The new policy seems to be that “ordinary innovation” is not entitled to a patent.

Is there a New Test for Obviousness?

The Supreme Court in the *KSR v. Teleflex* decision did not articulate a test to replace the “teaching, suggestion, or motivation” test, but did not throw it out completely. The justices seemingly left it open for further cases to formulate a substitute test. The Court suggested that *predictability* may be an important consideration in finding an invention obvious: “If a person of

ordinary skill can implement a predictable variation [resulting from a combination of elements], §103 likely bars its patentability.” In a similar vein, the Court stated: “[A] court must ask whether the improvement is more than the predictable use of prior art elements according to their established functions.” Must a patentable invention now be *unpredictable*, and if so, what exactly does that mean?

These statements are an odd throwback to earlier rules, which were found unworkable in many circumstances – which gave rise to the later “teaching, suggestion, or motivation” test by the CAFC. A Supreme Court case from 1976, *Sakraida v. AG Pro, Inc.*, set forth the rule that when a patent “simply arranges old elements with each performing the same function it had been known to perform” and yields no more than one would expect from such an arrangement, the combination is obvious.

Based on the Supreme Court’s April 30, 2007, opinion, a new test for obviousness may require a look at this notion of *predictability*. Such a test may work better for some technologies (e.g. chemistry and biotechnology) than others (e.g. electronics and mechanics). Chemistry and biotechnology are often called “unpredictable arts” because of the often trial-and-error nature of research and the occasional unexpected results.

Other technical areas are characterized as “predictable” arts simply because innovation often results in incremental improvements and advances rather than sudden leaps. After all, computers and networks had been in existence since the 1960s, but it took certain arguably “predictable” improvements of personal computers, software, and telecommunication capabilities to create the Internet and the wide variety of benefits from those areas of technology. Under a “predictability” test, arguably incremental innovations may simply not be entitled to a patent. Such a test may further increase the resistance of the USPTO to issue computer software and so-called “business method” patents, and make such patents more difficult to enforce in the courts.

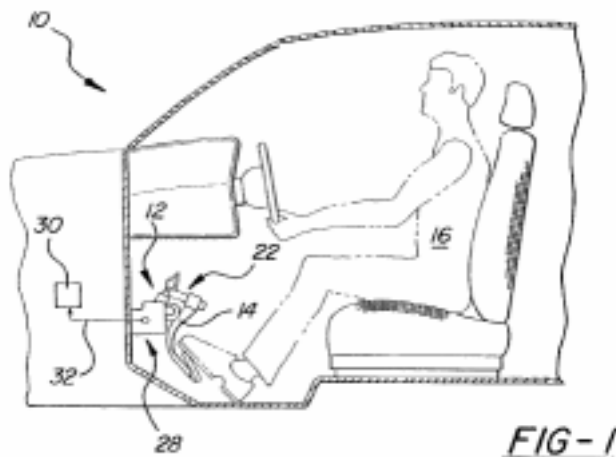
Also troubling was the Supreme Court’s suggestion in the *KSR v. Teleflex* case that “real innovation” may be required in order to have a valid patent: “Granting patent protection to advances that would occur in the ordinary course *without real innovation* retards progress and may, in the case of patents combining previously known elements, deprive inventions of their value or utility.” (Emphasis supplied.) But what is “real innovation”? And how can anybody know what may or may not occur “in the ordinary course”? And what inventions may be deprived of their value or utility?

None of these questions are answered in the *KSR v. Teleflex* opinion. Rather, we are instructed to apply an “expansive and flexible approach” in considering obviousness.

“Ordinary Innovation” Cannot be Patented?

The *KSR v. Teleflex* opinion contains even more troubling language to companies that only create incremental innovation and improvement, as opposed to fundamental research and development. Looked at from the perspective of defending against a charge of infringing a trivial invention, there is much greater risk that low quality patents directed to marginal,

incremental improvement will and should be denied issue by the USPTO and rejected by the courts.



Another statement in the Court’s opinion may serve as instruction to the U.S. Patent and Trademark Office to deny patents that only involve “ordinary innovation” –whatever that is. The Court had this to say about “ordinary innovation”:

We 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*. And as progress beginning from higher levels of achievement is expected in the normal course, *the results of ordinary innovation* are not the subject of exclusive rights under the patent laws. Were it otherwise patents might stifle, rather than promote, the progress of useful arts. (Emphasis supplied.)

Although the Court’s language is not a direct statement to this effect, one interpretation of the preceding quotation is that patents for incremental improvement will be harder to get allowed and harder to enforce – and thus be of less value. A notable advance in technology, for example invention of the laser beam, sets a new threshold from which patentability (obviousness) is to be measured. Ordinary innovation on top of that new threshold may not be entitled to a patent, in the Supreme Court’s view.

Many large companies have for a number of years engaged in the practice of filing large numbers of small, often low quality, and sometimes narrowly-drawn patent applications that, according to some patent practitioners, are only directed to incremental improvements. Such patents are often called “commodity” patents because of the low level of innovation set forth and the low price paid to prepare and file the applications. This strategy was formed at least partially in the belief that there is value in sheer numbers of small, narrow patents.

Companies that engage in such “commodity” patent filings may need to reconsider their patent strategies in view of the *KSR v. Teleflex* decision. There may be no guarantees that a well-crafted and high quality patent application will result in a patent, especially if the invention represents only an “ordinary innovation,” but it is clear that patents for incremental innovation will have a tougher time at the USPTO and in the courts.

Shifting of the Balance Toward Free Competition

As with any controversial subject, there are two different views of these developments. On the one hand, parties under attack from questionable patents may breathe a sign of relief that the courts are now more likely to side with them that a patent in a lawsuit is invalid. On the other hand, companies that need good patents to protect valuable inventions, or need protection from copycats and “heel-nipping” competitors, or need to raise capital, may find patent protection harder to come by and more expensive – if even a patent can be obtained. The need for patent application quality and identification of significant innovation is even more paramount now.

The *KSR v. Teleflex* decision might be seen to shift the balance between protection of innovation and free competition – in favor of freer competition. Fewer patents may be granted. Even those patents that are granted may prove more difficult to enforce, unless they are of high quality and focus on extraordinary innovation. Greater uncertainty is likely to persist in the patent system until the effects have been felt in the marketplace for long enough to attract political attention and Congressional action.

A Threat to the Patent System, or an Improvement?

One of the primary benefits of the patent system has been to reward innovators and creators with patents, to help them build businesses and profit from their ideas. This creates jobs and stimulates the economy. The United States has for many years enjoyed the greatest standard of living in the world and introduced the rest of the world to many major technological advances within the past 100 years. This writer thinks that the American inventive and entrepreneurial spirit, coupled with the most progressive and workable patent law of any country in the world, is one big reason for that economic success. As bad as some may think our patent system is – it is far more developed and sophisticated than the system in any other country.

Some commentators are saying that the Supreme Court has now, without the rigor of a policy debate in the larger society, issued a ruling that risks undercutting American inventiveness and innovation, and stifling economic development resulting from innovation. Without effective barriers, foreign competition and copyists and innovation heel-nippers – none of whom have made the investment in innovation – will have freer reign in the marketplace. While in the short term this may produce lower consumer prices, in the longer term American innovation may be threatened.

Philosophically, many people believe that the extent of this balance is and should be a legislative policy decision, not one made by the courts. The Supreme Court has long acted as a *de facto* policy-making governmental entity, often stepping in when Congress delays or seems incapable of reaching a policy compromise in difficult areas such as civil rights, abortion / right to life

rights, and other politically controversial areas. With this latest decision, the Supreme Court has once again made a *de facto* policy ruling that some will view as anti-patent and pro-competition, and that can have long term implications for U.S. competitiveness and leadership in innovation.

But is it really? Another view is this: by requiring *real innovation* to obtain a patent, and denying patents to *ordinary innovation*, the Supreme Court has sent a message that patents for mere incremental improvements are to be denied or invalidated. Patents that involve real innovation, extraordinary ideas, and genius, and pass the possibly stricter review of the USPTO and the courts, will have significant value.

The Supreme Court's message could also be interpreted as a warning against the so-called "commodity patent" filings, a patenting technique favored by many large companies with established patent programs. According to some, one reason that the USPTO has issued so many "bad patents" is that it has had to process an overwhelming number of patent applications that only contain incremental improvement and not "real innovation." If this is the message, companies that seek to protect their competitive advantage with patents need to (a) seek to identify those inventions which represent "real innovation" not "ordinary innovation," and (b) file thorough, high quality patent applications that highlight the nature of the real innovation, the unpredictability of the invention, the longfelt need for an invention, and other circumstances that help demonstrate the nonobviousness of an invention.

What Questions Must Now Be Answered?

To some commentators, the Supreme Court's intervention into this area, although perhaps unavoidable, was more than a corrective action – it may have long lasting implications, many of them not necessarily positive for American innovation and global competitiveness. Whatever the views and positions, a number of legal and business questions will have to be answered with future litigation, business decisions, and policy determinations, including:

- Will patents become less or more valuable because of this decision?
- Will the number of patents filed drop off drastically?
- Will judges and juries strike down more patents as obvious?
- What exactly is a "real innovation" that the Supreme Court thinks should be patentable?
- How will parties now present evidence of obviousness, or nonobviousness, to the USPTO and to the courts?
- Can you now only patent an unpredictable development, and how you know that it was unpredictable?
- What can we expect from the USPTO in patent prosecution?
- Will patent examiners now find more inventions obvious, refuse the patent, "hold the line," and force more appeals?
- Will the Board of Appeals uphold more examiner refusals to issue patents?
- What kind of testimony will sway patent examiners, judges, and juries to convince them now that an invention is not obvious?
- What impact will the Court's decision have on inventors, businesses, corporations and innovation in the U.S.?

- What impact will the *KSR* decision have on technology companies and business method patents?
- What impact will the *KSR* decision have on drug makers and biotech companies (unpredictable arts), whose patent concerns are typically different from those of technology companies (predictable arts)?
- How should a court or the USPTO apply an “expansive and flexible approach” to considering the question of obviousness, without slipping into a “rigid inquiry” such as the TSM test?
- Will *KSR* stifle innovation? Was innovation really stifled before *KSR*?
- What questions has the Supreme Court left unanswered?

Many lawsuits now underway will have to “restart” to consider the implications of this decision. If your business is affected by patents, you will want to consider the impact of the *KSR v. Teleflex* ruling carefully and watch for further developments, and you may want to reconsider your patent filing, prosecution, enforcement, and defense strategies.

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