



PATENT LAW 2007: The Year in Review

By Bruce Owens

2007 was in many ways a watershed year in the field of patent law. Both the Court of Appeals for the Federal Circuit (CAFC) and the U.S. Supreme Court rendered decisions that will have significant effects for years to come. Sweeping patent reform legislation was taken up by both houses of Congress, and the U.S. Patent and Trademark Office (USPTO) announced new rules governing the filing and prosecution of patent applications, only to see implementation of those rules enjoined by a district court. A brief discussion of these cases and issues is provided below.

OBVIOUSNESS

In a much-anticipated decision, the Supreme Court in *KSR v. Teleflex* rejected the CAFC's rigid application of the "teaching-suggestion-motivation" (TSM) test for obviousness, reiterating instead that the correct approach is the analytical framework laid out in *Graham v. John Deere Co.* The Court held that "the [nonobviousness] analysis need not seek out precise teachings directed to the specific subject matter of the challenged claim, for a court can take account of the inferences and creative steps that a person of ordinary skill in the art would employ." The Court's statement that "the results of ordinary innovation are not the subject of exclusive rights under the patent laws" suggests that patents for incremental improvements may be harder to obtain in the future. Furthermore, the *KSR* holding effectively raised the bar for rebutting a charge of obviousness by requiring a patentee to demonstrate that no "apparent reason" to combine references or modify prior art to create the allegedly obvious invention exists.

INFRINGEMENT

The CAFC in *In re Seagate Technology* eliminated the affirmative duty of a potential infringer who is notified of another's patent to determine whether or not infringement is taking place in order to avoid a finding of willful infringement. Overruling its 1983 decision in *Underwater Devices v. Morrison-Knudsen Co.*, the CAFC held that a demonstration of willful infringement requires at least a showing of objective recklessness, which requires two elements of proof: (1) a demonstration that the accused infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent, and (2) evidence that the accused infringer was aware or should have been aware of this risk.

In *Integra Lifesciences v. Merck*, the CAFC considered whether experiments involving patented compounds that are not ultimately the subject of an FDA submission fall within § 271(e)'s safe harbor provision, which exempts from infringement experimentation involving patented compounds which are "solely for uses reasonably related to the development and submission of information" to the FDA. In finding no infringement, the CAFC articulated a two part test: (1) there must exist a reasonable basis for identifying the compounds as working through a particular biological process to produce a particular physiological effect, and (2) the experimentation must be reasonably related to that appropriate for inclusion in an investigational new drug application.

The issue of joint infringement by multiple parties of a single method claim was addressed by the CAFC in *BMC Resources v. Paymentech*. In *BMC Resources*, the accused infringer did not perform all of the steps of the claimed invention itself; rather, some of the steps were carried out by third parties over whom the accused infringer had no control. Consequently, the CAFC, applying the law of vicarious liability in the context of patent infringement, held that the accused infringer was not liable for direct infringement.

The Supreme Court in *Microsoft v. AT&T* addressed the question of whether software that would infringe a patent if installed on a computer in the United States would properly fall under § 271(f) of the Patent Act if installed on a computer overseas. § 271(f) calls for infringement liability for the unauthorized supply of "components" of a patented invention for "combination" abroad. The Court answered this question in the negative, holding first that abstract software code divorced from any physical medium is not a "component" subject to "combination," and further that copies of the software installed overseas cannot be said to have been supplied from the United States for purposes of liability under § 271(f).

PATENTABLE SUBJECT MATTER

In *In re Comiskey*, the CAFC unanimously reaffirmed the holding in *State Street Bank & Trust Co. v. Signature Financial Group* that a business method is patentable as a process as long as it produces "a useful, concrete and tangible result." The CAFC, however, further held that the process to be patented must either be implemented by a specific type of machine or change

materials to a different state; "mental processes – or processes of human thinking – standing alone are not patentable even if they have practical application."

The CAFC narrowed the scope of patentable subject matter with its decision in *In re Nuijten*. In *Nuijten*, the CAFC held that physical but transitory forms of signal transmission such as radio broadcasts, electrical signals through a wire, and light pulses through a fiber-optic cable did not fall into any of § 101's four statutory categories of patentable subject matter (process, machine, manufacture, or composition of matter). Accordingly, claims directed to such signal transmissions were not directed to patentable subject matter.

INEQUITABLE CONDUCT

In *eSpeed v. BrokerTec USA*, the CAFC held that, for purposes of determining inequitable conduct, an "inference of intent [to deceive] may arise where material false statements are proffered in a declaration or other sworn statement submitted to the PTO." The CAFC found that the district court was free to draw an inference that such a declaration was "the chosen instrument of an intentional scheme to deceive the PTO ... because the affirmative act of submitting an affidavit must be construed as being intended to be relied upon." The *eSpeed* decision was widely viewed as demonstrating the CAFC's increasing willingness to grant district courts greater latitude in finding inequitable conduct.

DECLARATORY JUDGMENT

The Supreme Court in *MedImmune v. Genentech* lowered the bar for declaratory judgment jurisdiction by holding that a licensee was not required to break or terminate the license agreement prior to seeking declaratory judgment of patent invalidity, unenforceability, or noninfringement of the licensed patent, particularly in view of the potential damages that the licensee would risk if it did breach the license agreement. Significantly, the Court also noted in a footnote that the CAFC's "reasonable apprehension of suit" test for determining the existence of a case or controversy was in conflict or tension with four of its prior decisions. The *MedImmune* decision is expected to lead to an increase in the number of declaratory judgment actions, and may result both in increased willingness on the part of potential licensees to enter into license agreements, as well as increased royalties demanded by licensors.

Following *MedImmune*, the CAFC in *SanDisk v. STMicroelectronics* held that declaratory judgment jurisdiction arises where a patentee asserts rights under a patent based on the ongoing or planned activity of another party, and where that party contends that it has the right to engage in the accused activity without license. The CAFC further observed that the *MedImmune* decision represented "a rejection of our reasonable apprehension of suit test." Only days later, the CAFC in *Teva Pharmaceuticals USA v. Novartis Pharmaceuticals* explicitly acknowledged that its reasonable apprehension of suit test had been overturned, and adopted in its place the Supreme Court's "all the circumstances" test as the proper standard. Under this test, the plaintiff must show "under 'all the circumstances' an actual or imminent injury caused by the defendant that can be redressed by judicial relief and that is of sufficient immediacy and reality to warrant the issuance of a declaratory judgment." It remains to be seen, however, exactly what "circumstances" will or will not be sufficient to support declaratory judgment jurisdiction.

PATENT REFORM

The Patent Reform Act of 2007, legislation containing sweeping patent reform measures, was introduced in both the U.S. Senate (as S. 1145) and House of Representatives (as H.R. 1908) on April 18, 2007. The Act included provisions providing for a first-to-file system, eliminating interference proceedings, instituting post-grant opposition proceedings, and limiting damages. The House passed H.R. 1908 on September 7, 2007; at year's end, the Senate was still considering S. 1145.

NEW USPTO RULES

On August 21, 2007, the USPTO proposed sweeping new rules governing the filing and prosecution of patent applications in the United States. The proposed rules would have limited the number of claims that could be presented in an application and the number of applications that could be prosecuted for "patentably indistinct" inventions. Additionally, the rules would have required applicants to notify the USPTO of related applications, and would have placed significant new restrictions on the filing of continuing applications. Before the new rules could take effect, however, the United States District Court for the Eastern District of Virginia issued a preliminary injunction enjoining the USPTO from implementing the proposed rules.