Skadden

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Skadden Speakers: Anthony Dreyer, Pramode Chiruvolu, Chris Coulson and Chad Williams

Anthony Dreyer: Hi, everyone, and welcome to the latest edition of Skadden's This Quarter in Intellectual Property. I'm Anthony Dreyer, a partner in Skadden IP litigation group. Joining me today are my colleagues, Pramode Chiruvolu, Christopher Coulson, and Chad Williams.

On today's edition, the Supreme Court tackles statute of limitations and damages issues for copyright infringement claims. The PTO's U.S. counsel requirement withstands judicial scrutiny. We provide an update on recent ITC cases exploring the intersection between trade secret and patent protection. But we start with Pramode and Chad, who will unpack the PTO's new guidance on patent eligibility for A.I. assisted inventions. Take it away, guys.

Chad Williams: Thank you, Anthony. So, as just mentioned, Pramode and I will be talking about recent guidance that was issued by the USPTO that covers a subject that we've all been following closely, which is how does artificial intelligence impact the various analyses that we're conducting in regards to, in this case patent, but really we'd be concerned with how it affects all areas of intellectual property: patent, trademark, copyright as well, trade secrets of course. So taking it from there, we're going to give you a little bit of background on how we got to this point.

So on October 30th of 2023, the Biden administration issued the executive order on the safe, secure and trustworthy development and use of artificial intelligence. And Section 5.2(c)(I) of that order instructed that the USPTO issue guidance addressing inventorship and the use of A.I. and to provide illustrative examples of how A.I. can factor into the inventorship process, as well as how such examples should be analyzed. And in keeping with the instructions of that order, on February 13th, 2024, the USPTO published new guidance on the patent inventorship analysis for A.I. assisted inventions.

The bottom line of the guidance can be summarized in the following quote: "While A.I. assisted inventions are not categorically unpatentable, the inventorship analysis should focus on human contributions. as patents function to incentivize and reward human ingenuity."

So because A.I. is advancing rapidly and is relatively novel in the context of litigation, there is relatively little case law on how A.I. affects the inventorship analysis, as well as other analyses that are conducted as part of patent litigation. But a case that is instructive and that informed the guidance to an extent is the case of *Thaler v. Vidal*, which was decided by the federal circuit in 2022.

In that case, the federal circuit recognized that there was an open question of whether inventions made with the assistance of A.I. are patentable. However, in the context of that particular case, the court was not considering this question directly, but rather a different question, which was, can an A.I. program be a named inventor of a patent? To answer that question, the federal circuit found was no. As a bit of background procedurally, the plaintiff, Steven Thaler, had applied to the USPTO for two patents. One was for what he considered to be a neural flame, which in practice is a brain powered flashlight. The other was a food container, which he referred to as a fractal container, which used fractal geometry to construct a food and beverage container.

So, as you might imagine, Thaler, I'm not going to go so far as to call him a mad scientist, but he's a relatively eccentric person, as those on the cutting edge of technology sometimes happen to be. And really, he's been pressing the issue of artificial intelligence and how it interacts with inventorship across multiple jurisdictions.

So, in fact, he brought a similar case in the United Kingdom, which actually reached a similar outcome as the federal circuit in the United States did, which is that an A.I. system cannot be a named inventor of a patent. So in terms of how he came to bring the case before the USPTO, he was using a system that he refers to as DABUS, and DABUS refers to a device for the autonomous bootstrapping of unified science.

And what DABUS is, is a generative A.I. program, which we'll be discussing, and that, as the presentation continues, but essentially it's a generative A.I. model in which a human practitioner inputs prompts and then they get output that's instructing on the inventive process. So in Thaler's mind, the inventions are output from his DABUS system and the system could qualify independently as inventors such that they could be named as the inventors on patent applications, which the USPTO disagreed with, the district court then disagreed with, and then ultimately the federal circuit affirmed that that's not–that an A.I. program cannot be a named inventor.

Their reasoning was that 35 U.S.C § 100(f) defines an inventor as the individual or, if a joint invention, the individuals collectively who invented or discovered the subject matter of the invention. And the federal circuit, relying on Supreme Court precedent, interpreted individual to mean a human being.

So the inventorship guidance for A.I. assisted inventions, a natural person's use of A.I. does not prevent patentability if the natural person contributed significantly to the claimed invention. That was the crux of the USPTO guidance. But that leads to the question, what is a significant contribution?

Well, the court referred to a 1998 federal circuit case, *Pannu v. Iolab Corp.*, which held that each inventor must, one, contribute in some significant manner to the conception or reduction to practice of the invention, two, make a contribution to the claimed invention that is not insignificant in quality when that contribution is measured against the dimension of the full invention. And three, do more than merely explain to the real inventors well-known concepts and or the current state of the art. In law school, my patent professor said that the name of the game is the claim when it comes to patent analysis, and that's what the guidance of the USPTO

comported with. They instructed that each claim of an invention must have been invented by at least one human inventor.

So when we're talking about the inventorship analysis, it's going to go on a claim-by-claim basis. And what the guidance further instructed is that these *Pannu* factors must be applied to each claim to ensure significant human contribution. Right? And when you think about it, the *Pannu* case was decided in 1998 before A.I. was a major consideration in the patent application analysis. So what the further guidance does is instruct how the relatively novel context of A.I. comports with these principles that were set forth back in 1998.

So the inventorship guidance for A.I. assisted invention boiled down to five principles, right? And the first is that a natural person's use of an A.I. system in creating an A.I. assisted invention does not negate the person's contributions as an inventor. So just because a person utilized the assistance of an A.I. program in the process of conceiving an invention or creating an invention, that does not automatically negate that person's contribution.

The second is that merely recognizing a problem or having a general goal or research plan to pursue does not rise to the level of conception.

A further note on that is that presenting a problem to an A.I. system is not necessarily enough to have the system be considered the inventor of the output. And that actually differs in a way from instruction that was provided by the copyright office. Because in the case of patent, the guidance noted that a significant contribution can be found in the prompt construction process, particularly where the person constructs the prompt in view of a specific problem to elicit a particular solution from the A.I. system.

Whereas the copyright office took a different approach, saying that there is really no level of creativity that can go into the prompt input process that can give the prompt inputter authorship over the output of the A.I. system. So that's an area where the two offices, or the two branches of intellectual property, are diverging at the moment.

The third principle is that reducing invention to practice alone is not significant contribution that rises to the level of inventorship. In other words, one cannot simply take the output of an A.I. system, the utility of which is apparent to those of ordinary skill in the art and claim inventorship.

The fourth is that a natural person who develops an essential building block from which the claimed invention is derived may be considered to have provided significant contribution, even if the person does not contribute to each subsequent step in the inventive process.

And the last principle, the fifth one is that a person simply owning or overseeing an A.I. system that is used in the creation of the invention without providing significant contribution to the conception of the invention, does not make that person an inventor.

So these principles make sense in the abstract, but we believe that they'll be further illuminated when we take you through the instructive example scenarios that the USPTO put out as part of this guidance. So for that, I'll hand it over to Pramode.

Pramode Chiruvolu: Thank you, Chad. So walking through the first of two examples that the USPTO issued alongside its written guidance, this example relates to a transaxle for a remote car, a remote control car. It's really the mechanical example. The other example that was provided by the USPTO relates to the development of a candidate drug for a therapeutic purpose. And there that's much more tailored to the life sciences. It's an interesting analysis, but it's more complex. And we'll take you through this a bit more straightforward example on the mechanical side to help clarify how in practice the guiding principles will be applied.

So the scenario involves a toy company that's developing an RC car that needs a transaxle as part of the design, and Ruth and Morgan, two individuals use an A.I. system to generate a preliminary design. They use a system that's generally available that takes in natural language prompts and then it creates text and images as its output.

And they input a prompt that just asks the A.I. system to create an original design for transaxle for a model car with a schematic and description of the transaxle. And then the output is a design of the transaxle, and Ruth and Morgan take that design and in the first scenario, they simply recite that design as claim one of the patent application. And the bottom line is that Ruth and Morgan are not inventors of claim one, because although they recognize the problem, that they need a transaxle and they created a prompt and then accepted what the output of the A.I. system was, mere recognition of the problem is not enough. The prompt was rather generic. It was just a restatement of the problem that they need a transaxle and merely finding the output acceptable does not put them over the top to be, to have been significant contributors to the invention that's being claimed. And so claim one would be rejected for lack of human inventorship.

In scenario two, the schematic that's output by the A.I. system is then further modified to clarify that the casing in this dependent claim, the casing is constructed from steel and Morgan simply has taken what is the A.I.'s output and applied a standard material to one of the elements which involved some reducing the transaxle to practice. But reducing to practice is not sufficient for inventorship, and really the new factors and the USPTO and its guidance is focusing on conception, and reduction to practice, mere reduction to practice is insufficient for human inventorship to be a significant contribution. And again, claim two does not have a human inventor.

In scenario three, Ruth and Morgan go back to the A.I. system and they prompt it for additional designs. There are a number of designs, including a design in which the casing elements could be separable along a horizontal plane. And Ruth and Morgan take this design and they start to build it. They realize that they need to make some modifications. They generate new designs that elongate certain parts and make various changes. And Morgan designs an additional piece, a fastener that works with the transaxle, and claim three encompasses the elements of this new design.

And the conclusion that the USPTO comes to in this scenario is that Ruth and Morgan are the inventors of claim three. So although they started with the output of an A.I. system, they experiment with it and they created ultimately a new design.

And Morgan further developed this clip fastener that wasn't part of the A.I.'s output, and so looking at the humans' contributions as a whole, they were sufficient to be significant contributions. And so claim three does have human inventorship and could be allowable.

In scenario four, claim four is a dependent claim from claim three, where the casing is made from aluminum, and this suggestion came from the A.I. system where Ruth and Morgan describe the details of the design that led to claim three and fed it into the A.I. system, asked for manufacturing suggestions and the system came back and suggested a casing that's made of aluminum.

This is a common material, but Ruth and Morgan still are inventors of claim four even though this additional element that's claimed in this dependent claim came from an A.I. system and claims a common material. When looking at the claim as a whole and claim four would include not only the casing made from aluminum, but also all the limitations of claim three, looking at the invention being claimed as a whole, there are significant contributions by Ruth and Morgan for all of the reasons described as to why Ruth and Morgan significantly contributed to claim three.

And so claim four is likewise, like claim three, also potentially allowable. It has human inventors, Ruth and Morgan. And just to note it, this is an application of the first principle that's articulated, the first guiding principle that's articulated by the USPTO, which is that use of an A.I. program for suggestions or in the process does not in and of itself negate the wider contributions that humans make.

And then in scenario five, the USPTO pivots to look at who designed the A.I. system, and so Maverick was the lead A.I. engineer who oversaw the creation and training of this general purpose system that Ruth and Morgan used in connection with generating claims one through four. And the USPTO determines that Maverick is not an inventor for claims one through four. This system was developed to solve general knowledge problems. It was not designed to solve any specific problem and certainly not to solve this specific problem of the transaxle. And so Maverick merely created this A.I. system and didn't contribute significantly to the conception of the transaxle in claims one through four and therefore is not an inventor.

Hopefully, this overview of this example, the first example is helpful to you in sort of crystallizing how the USPTO expects to apply the various guiding principles and the *Pannu* factors in connection with assessing inventorship in the context of A.I. assisted inventions.

There is, as I noted, a second example for those who are in the life sciences industry. We commend you to refer to that example as it is quite detailed and has a number of interesting poses, a number of interesting scenarios that are relevant to the discussion.

So some key takeaways: first, the PTO has made clear that it is expecting increased A.I. involvement in the inventive process, and that does not, in and of itself, negate, as noted in principle one, that does not in and of itself negate human inventorship.

But, when inventors are using A.I, they need to consider whether there's a significant human contribution to each claim and the *Pannu* factors set forth the general test to determine

whether there's been a significant contribution by humans. And the analysis will be carried out by the USPTO on a case-by-case and claim-by-claim basis, as Chad noted.

And there will be, we anticipate, plenty of room for argument and edge cases and gray areas. But with the guidance that's been provided by the PTO, we expect that many circumstances that were previously unclear as to how the USPTO would perform the analysis will now become a bit clearer.

We'll continue to follow these matters. There are a number of additional issues, including how claiming priority to foreign filed applications where an A.I. is permitted as inventor as is the case in South Africa and Germany, how that will be treated, among other issues. So we'll continue to track this issue and we're happy to talk through any questions anyone may have if you email us or put them into your into your chat.

So next, we'll turn to Copyright.

ANTHONY DREYER: Thanks, Pramode, and thanks Chad. We started copyright with an issue that has caused disagreement among commentators and the circuits, and that is the statute of limitations for copyright infringement actions.

It's an issue that is at the heart of a case now before the Supreme Court: *Warner Chappell Music v. Nealy*.

For some background on the copyright statute of limitations, Section 507(b) of the Copyright Act provides that, "No civil action shall be maintained under the provisions of this title unless it is commenced within three years after the claim accrued." Now, while that might seem clear, the statute does not specify when copyright infringement claims accrue. And thus when the three-year statute of limitations period begins to run. The majority of circuits have adopted the so-called discovery rule, under which a claim for copyright infringement actions accrue on the date that the plaintiff discovered or should have discovered the infringing conduct. That is when they knew or should have known about the infringement.

This is in contrast to what is called the injury rule, in which the limitation period begins to run on the date the act of infringement occurs, even if the plaintiff lacks knowledge of the activity. Although no circuit court has formally adopted the injury rule for copyright claims, the Supreme Court's 2014 decision in the Petrella case has been interpreted by many, both commentators and courts, as an acceptance of the injury rule over the discovery rule. Adding to the confusion, however, is the fact that the Second Circuit, after Petrella interpreted that decision as creating a three-year cap on damages for copyright infringement claims.

Now circling back to the Warner case. The case arose in 2018 when the owner of a publishing company, Music Specialist Inc, by the name of Sherman Nealy, sued defendants Warner Chappell Music, Artist Publishing Group and Atlantic Records for copyright infringement that allegedly began all the way back in 2008.

While Nealy was incarcerated, the co-founder of his publishing company, MSI, signed an agreement with Atlantic Records to allow it to interpolate one of MSI's works into a song by the

artist Flo Rida. The infringement was not discovered by Nealy until 2016, and that's not really in dispute.

Nealy both challenged the agreement, the license agreement that his co-founder signed, and argued that the use of his work was infringing. The defendants moved for summary judgment on statute of limitations ground, but the District Court denied the motion.

However, the court certified for interlocutory appellate review the issue of "whether the Copyright Act's statute of limitations bars a copyright plaintiff from recovering damages for harms occurring more than three years before the plaintiff filed, even if the suit is otherwise timely under the discovery rule."

In effect, the question certified for the 11th Circuit is whether that Circuit agreed with the Second Circuit's three-year cap on damages. On appeal, the 11th Circuit affirmed the application of the discovery rule. It further ruled that a copyright plaintiff with a timely claim under the discovery rule may recover damages going all the way back to the time of infringement, even if that extends the damages period beyond three years.

In so holding, the court rejected the Second Circuit's approach. The 11th Circuit concluded that there is no support in the plain text of Section 507(b) or anywhere else in the Copyright Act to limit damages to three years for an otherwise timely claim.

Now, last year, the Supreme Court granted cert. Interestingly, the question that the court certified on appeal appeared to assume the discovery rule applied. Specifically, the question the court certified is, "whether under the discovery accrual rule applied by the circuit courts and the copyright statutes, Copyright Act statute of limitations for civil actions can a copyright plaintiff recover damages for acts that allegedly occurred more than three years before the filing of a lawsuit."

Now, as part of its appeal, the labels argued that under Section 507(b), the three-year statute of limitations begins to run, that is begins to accrue, when the infringing act occurs, regardless of when it was discovered. Under that approach, at a minimum, Nealy should not be entitled to relief for infringement occurring more than three years before the filing of the suit. And in fact, their position is he should recover nothing. Petitioners also argue that the discovery rule should be limited to narrow cases in which fraud, latent disease or medical malpractice prevented a plaintiff from discovering the injury.

In response, respondent Nealy argued that the petitioners' focus on whether or not the discovery rule is part of the Copyright Act was not certified by the court and is not part of the limited question that should be addressed. Nealy also argued that petitioners' recourse is with Congress to clarify the statute of limitations and any damages cap, and not the Supreme Court, if petitioners believe that the Copyright Act should in fact have a three-year damages bar. Now on February 21st, just last month, the Supreme Court held oral argument, notably the solicitor general for the U.S. government, for the DOJ, argued in support of Nealy. The solicitor general's office argued that the text of the Copyright Act in no way supports the Second Circuit's limit on the damages a plaintiff may recover for a copyright infringement claim that's otherwise timely. In terms of how the court is leaning, that is, of course, difficult to determine based solely

on the questions asked of the parties, particularly here. Having said that, many of the justices expressed concern that Warner was pressing for the injury rule when the court's certified question presumed the discovery rule applies, and that the real question is whether the Second Circuit's three-year cap on damages has any support in the text of the Copyright Act.

The case is currently pending a decision before the Supreme Court. Now, interestingly, the *Nealy* case may impact another copyright dispute working its way up to the court, at least potentially working its way up to the court, this one involving the application of the statute of limitations to the publishing of photographs. The case is *Martinelli v. Hearst Newspapers*. Photographer Antonio Martinelli filed a copyright infringement claim against publishers alleging they used a series of his photographs online and elsewhere without permission.

The primary dispute in question is whether the court should apply the discovery rule or the injury rule when evaluating the statute of limitations.

The District Court held that Hearst is liable to Martinelli for the infringement of his photographs because he discovered the act of infringement within three years of the date he filed suit, again applying the discovery rule. Court granted his motion for summary judgment and rejected the defendant's statute of limitations argument. On appeal, the Fifth Circuit held that the Supreme Court decision in Petrella in no way overruled the Fifth Circuit's adoption of the discovery rule for copyright infringement claims.

Thus, the photographer's copyright infringement claims in the *Hearst* case were timely. The court concluded that it was declining to create a circuit split by being the only circuit court after *Petrella* to find that the discovery rule no longer applies.

Now in petitioning for a writ of cert., petitioners argue that the discovery rule itself finds no support in the Copyright Act or in Supreme Court copyright precedent. They also argue that lower court decisions applying the discovery rule are unpersuasive and lead to inconsistent rulings contrary to the intent of the drafters of the Copyright Act of 1976. Respondents, of course, have opposed cert, and whether the dispute will be mooted by the *Nealy* decision remains to be seen.

We move on from copyright to the First Amendment. In *X Corp. v. Garland*, X, formerly known as Twitter, challenged the federal government's restrictions on X's ability to disclose to the public information about government requests regarding X users. X argued that the government's restrictions violated the First Amendment.

Now this particular action stems from claims by former NSA contractor Edward Snowden about the extent of U.S. spying. X claims that in bringing the lawsuit, its objective is to end illegal limits on public disclosures that tech companies can make about U.S. national security related requests on the platform. Under current law, companies can reveal the number of requests they have received, but only within a range, such as something between zero and five hundred over the last six-month period.

What X seeks to disclose the exact number of times in a prior six-month period, the government served it with national security orders seeking information.

The district court, however, rejected X's claims, holding that the government's restrictions do not impinge on its First Amendment rights. The court granted summary judgment in favor of the government, denied X's cross motion for summary judgment.

Upon reviewing the government's declarations in the record, the court determined that the government satisfied its substantial burden under strict scrutiny. The court credited the declaration's explanation of the gravity of the security risks inherent in disclosing the information that X sought to publish. On appeal, the Ninth Circuit affirmed. It held that the government's restrictions were subject to strict scrutiny. But those restrictions were, in fact, narrowly tailored to prevent grave or imminent harm to national security and that the government was not required to comply with the exact procedural safeguards for censorship regimes that apply to content-based prior restraint.

The court also found that the government's current approach allows for sufficient procedural protections and that it did not violate due process by refusing to allow X's outside counsel to access classified materials in preparation of its case.

The Ninth Circuit recognized that although the government cannot uniformly invoke national security to fend off all First Amendment challenges, where the government can show a compelling security interest, the First Amendment must yield.

Just last month the Supreme Court denied the petition for writ of cert, meaning that X at least is the law, the *X* case is the law of the Ninth Circuit.

Finally we'll move to trademarks, and I'll discuss recent challenges to the U.S. counsel requirement for U.S. trademark filings. The USPTO recently promulgated a ruling requiring that where a trademark applicant, registrant, or party to a trademark proceeding has a domicile outside of the U.S. or its territories, it must be represented by licensed U.S. counsel. Now, the stated purpose of this rule, according to the PTO, is to combat the growing problem of foreign individuals, entities and applicants failing to comply with U.S. law, when acting before the PTO. As a part of the U.S. council requirement, the USPTO revised 37 C.F.R. § 2.32 to now require all applicants to include the name and domicile address of each applicant. The PTO also added a provision to the CFR requiring that an applicant or registrant provide and keep current the address of its domicile.

The USPTO explained that it was following the practice of other countries with similar domestic council requirements and domicile disclosures. Before the new requirement, applicants simply were required to provide a mailing address, which could consist simply of a P.O. Box.

Now in 2020, Chestek, a law firm that represents clients in trademark matters, applied for the mark CHESTEK LEGAL, but provided only a P.O. Box as its domicile address. The examiner refused Chestek's application on the ground that it did not comply with the new requirements under the CFR. Chestek, however, it refused to change its address and instead argued that the rules that were being enforced were improperly promulgated under the Administrative Procedures Act.

Now after the examiner rejected that claim and made the refusal final, Chestek appealed to the board, which affirmed the examiners decision. Chestek then appealed to the Federal

Circuit Court of Appeals. The Federal Circuit held that the rule requiring trademark applicants to provide a current address of their domicile was exempt from the APA's notice and comment rulemaking requirements.

The court similarly found that the Patent Act did not require the USPTO to engage in notice and comment rulemaking, and that the U.S. PTO did not act arbitrarily or capriciously when it promulgated the rule. The Federal Circuit determined that the key distinction when determining whether the domicile address requirement is a substantive rule that requires notice and comment rulemaking is not whether compliance with the address requirement affects a party's ability to obtain a trademark, but rather whether the requirement affects the substantive trademark review standards by which the office examines a party's application. The Court of Appeals determined that the domicile address requirement in no way impacted the substance of the trademark analysis, the registration analysis, because it did not alter the rights or interests of the parties.

The court also found that the domicile address requirement was not arbitrary and capricious because the USPTO adopted the requirement as part of a larger regulatory scheme to require foreign trademark applicants, registrants or parties to a trademark proceeding, to be represented by U.S. counsel.

With that, I turn things to Chris.

Chris Coulson: Thanks, Anthony, and thanks to all of our viewers who have commented and requested additional patent material.

We'll be turning back to patent land, my name again is Chris Coulson, a patent attorney here in the Skadden IP Litigation Group. The first patent topic will be covering regards obviousness of an invention. And we'll be talking about some recent informative guidance that issued from the patent office, from the Director, Vidal, updating us on obviousness law and how that will be applied in the patent office.

The reason that's important and why viewers should care about this is that this guidance, while not a requirement that can be enforced in law, is persuasive authority. Director Vidal has issued a number, a number of memorandums and director notices and now this guidance. That's had a real impact on the patent community and how the laws, patent laws, have been interpreted. So clients who are interested in patent prosecution or expanding their protections for patent prosecution will be interested in how obviousness law is being applied. Of course, parties who are challenging or having their patents challenged by an *ex parte* review before the patent office or an *enter parte's* review will also find this topic of interest.

The topic also impacts business processes that clients have in that the guidance tells us, as we'll get to in some detail in a minute, that having evidence of the difficulty or easiness of inventing something in the literature or in documented information is of help and it's something that the patent office and perhaps courts will look more to in the obviousness analysis.

Obviousness is a topic well known to those familiar with patents. Chad Williams mentioned that little case law has developed on A.I. applications. Obviousness is sort of the opposite of that, where there's a lot of case law that's been issued by various courts, by the

federal circuit, in some cases the Supreme Court and district courts and of course, the PTAB and examiner actions. So a summary and updating of that, of the standards of how they should be applied is very helpful.

Before we get into the guidance further, let me go back to the statute. That's 35 U.S.C. § 103. An invention is obvious, according to the statute. If the difference is between the claimed invention and the prior art, that means a publication or a prior patent. If the difference is between the claimed invention and the prior art are such that the claimed invention as a whole would have been obvious to a person of ordinary skill in the art, in which the claimed invention pertains.

So I think I noticed something in Chad and Pramode's A.I presentation that was interesting. The patent office was focused to some extent on the invention as a whole, as Pramode mentioned, in deciding whether there's a significant human contribution. Obviousness law, which is a little bit older and well-developed law also looks as the statute commands to the invention as a whole to determine whether as a whole there's a difference between the prior art. There's an interesting echo between current and developing standards and past standards.

In terms of turning to the standards themselves, the standard the courts and the patent office uses based on the statutory language I just read is essentially a four factor analysis. First, looking at the scope and content of the prior art, what is out there before the invention in patents and publications and other things, ascertaining differences between the claimed invention and the prior art.

And let me pause here for a moment. Sometimes it's important, it's important to remember, sometimes people focus on the patent itself and what is discussed in the patent, maybe the main diagrams in the patent and look as to whether that's obvious. But in fact, what we need to look at is the claimed invention versus what was available in the prior art. As Chad Williams mentioned earlier, the name of the game is the claim. So we looked at a claimed invention versus what was in the prior art.

Getting back to the factors, the third factor then is the level of skill of an ordinary person, of a person, of ordinary skill in the art. As mentioned in the statute, what we're doing is putting ourselves in the shoes of someone back at the time of the claimed invention. You had ordinary skill and applying, putting on their hat and determining whether an invention was obvious.

The fourth factor is secondary considerations. That's something that essentially as a patentee, the holder of the patent, you can put forward evidence of commercial success of your invention if it's been commercialized and you can point to a nexus between the particular aspect of the invention and increased sales or consumer positive feedback, that could be important to the patent office and courts in reaching the determination. And that's because we're putting ourselves back in time, in the imaginary, person of ordinary skill in the art, shoes. So essentially hard evidence, to continue the theme that we're going to be discussing in the guidance, is of great import and that in doing that.

Long felt but of unsolved need is another factor. So if we have literature discussing repeated attempts to improve, say, a brake pedal design that have not been successful, that's

something that can be considered. And failure of others, if people have tried and failed to make the same modification, maybe it wasn't so obvious after all.

Moving on, in the updated guidance, the guidance mentions a flexible, covers a flexible approach and advocates for a flexible approach over past standards. A little background is helpful here. The law of obviousness used to be, a teaching suggestion, motive used or had to be actually found in the prior art for the particular modification that was being made, that was being considered for the obviousness question. The current law under the Supreme Court's *KSR* case advocates for a more flexible approach, where common sense can be applied to the obviousness determination. The guidance as mentioned on the bottom of the slide here indicates that what we need to look for, rather than just saying that it was common sense to make the application, is for reasoned application of facts. Why would it have been common sense and how would the common sense have been applied? And the patent office, the PTO and courts will also look, should also look at all relevant, objective evidence. Those are those factors of past people attempting and failing to make the invention or commercial success in reaching the obviousness determination. So those are those are helpful reminders or helpful focus points from the guidance that the Director recently issued.

Continuing on the theme of a more flexible approach that should be applied under *KSR*, here on Slide 44, the person of ordinary skill in the art, that's what the PHOSITA acronym stands for, does not need to look only to what the main purpose of a prior art publication was. So, for example, if there was a prior art publication in the mechanical arts as to improving controls on an airplane, the person of ordinary skill in the art could apply that to, say, upgrading a brake pedal or handles in a car or in a train or in another machine. They're not limited to strictly what the main focus of the prior hour reference was. They're not, as the *KSR* case states, the person of ordinary skill in the art is not an automation.

Moving on to other aspects of the prior art of the guidance, here's an important point. The teachings of the prior art that were available do not need to be very specific as to being applied to say, for example, a brake pedal. I mentioned a brake pedal because that was what was improved in the *KSR* invention. So I always come back to a brake pedal. We're looking for a teaching or suggestion, generally speaking, or motivation generally speaking to improve. That can be to make computers faster. It can be to make microchips smaller, or in one of the cases mentioned here on the slide, to improve the rider stability of a water recreational device.

If you have prior art that mentions, as you may expect, there was and as was documented in the *Zup* case, *Zup v. Nash* case, the making watercraft more stable was something that was a motivation that was known to people of ordinary skill in the art. That was something people were trying to accomplish. So if there is a stability improvement that was available through the prior art, that's a particular motivation, even though it's a generalized motivation to apply that art, even if it's not specific watercraft art to improving the watercraft invention.

Speaking more generally, market forces or design incentives such as, or other techniques from multiple patents, can be combined in the flexible approach that's suggested by the guidance interpreting *KSR's* Supreme Court commands. So we're not looking at strictly a teaching suggestion or motivation to do something specifically if there was a market force that was, would result in faster computers selling better, that's the type of improvement, if you have a prior art,

even outside of the computer field, that would make computers faster in some way, that's something a person of a person of ordinary skill in the art could have, and in some cases would have, applied to combine several prior art references. And that's important and may have rendered the device, the acclaims invention obviousness, obvious.

An example of the type of general concern that can be applicable and also a contrast to that example is on here on Slide 48. In the *Intel v. Qualcomm* case, the motivation or the motive force for the person of ordinary skill in the art and the obviousness analysis that was put forward was the motivation to increase energy efficiency. Increasing energy efficiency sounds like a generic concern, but that concern is documented as something that would be helpful for electronic devices, if we're aware that for cell phones and other devices we carry around, if the energy efficiency improves, we get better battery life. If that was a concern back at the time of the invention, as perhaps it was, that's something an inventor or a person of very ordinary skill in the art would consider, it would apply perhaps energy efficiency techniques to the electronic devices. That's the kind of, although it sounds general, if it's a documented concern for electronic devices, that's the type of concern that can render something obvious.

On the other hand, a generic concern such as—well, it just was common sense to do that kind of thing, or it was known that that was something that would have helped—without more, without the reasoned analysis or, in particular, without the specific citation to a source that says that, from back at the time of the invention, it's not going to really move the ball forward.

And the guidance, the fact that the guidance emphasizes that is very helpful. That's certainly something I and others have found, both in particular before the patent office boards, PTAP, that having a specific citation to a reference saying that energy efficiency was important goes a lot farther than just arguing that that's the type of thing that would have happened without a particular prior source for that motivation.

Common sense again, is an insufficient explanation in terms of the patent office for those involved in prosecution or looking at board decisions. The decision maker should give, according to the guidance, a reasoned explanation and explain, look at all the facts for one, as you'd expect in applying administrative law, and apply reasoned analysis to those facts. So merely saying that something was common sense is not going to, should not carry the day and is something that can be challenged. Of course, this is a very fact, or a very case, in fact, specific analysis. But this is what the guidance is telling us. I think that's generally helpful for those in patent land and inventors to remember.

Objective real world evidence, continuing on the theme, plays a key role as opposed to a person or a witness opining, perhaps an expert opining, without having particular evidence on which to rely. And likewise for the examiner in the patent office, those of the government employees that look at a proposed patent application and decide whether it's obvious or not, whether it should be granted. The examiners are asked to apply, find and apply real world evidence rather than rather than speculating.

Query whether this this guidance will make rejections go up or down based on obviousness. The grounding in facts that can be found in prior art or in prior references is helpful to the extent examiners provide more additional evidence that will, that could result in

increased patent quality, which may well be the goal here. That's certainly Director Vidal's and the Patent Office's, one of the themes that the Patent Office has been focusing on under the director's improving patent quality. So I'll think of it more as a patent quality improver driver that the Director and the Patent Office are seeking. That may result in more obviousness objections in the short term, but may result in stronger patents in the medium or long term.

Moving now to trade secrets or secret manufacturing processes, it doesn't necessarily have to be a trade secret. It's another interesting patent aspect that's bubbling up now due to an ITC or International Trade Commission case that's being considered at the federal circuit. So what happened here and what is not so uncommon is the particular company was using a secret manufacturing process to make something and I'll move on and see what they're making. It's a chemical called AC, ACE-K, excuse me. This chemical was known in the prior art. The chemical has been available since, from the sixties and onward. What was, what the invention here is a way of making the chemical that had less and less impurities, basically an improved way of making the chemical.

The issue here is that the chemical was made by a secret process for a number of years and then the applicant sought a patent on that process. So there's a number of cases that give us guidance on when and how that's possible. I'll mention here, we're out of obviousness land and we're into a novelty land.

So the question before us in this analysis is whether an invention in this case, the secret process, the improved way of making the chemical, was novel. And that's 35 U.S.C. § 102. You are not entitled to a patent unless your invention was novel. So you're entitled to a patent, unless, according to the statute, the claimed invention was patented previously, described in a printed publication previously, or in public use, on sale, or otherwise available to the public before the filing date of the claimed invention. So what we're looking at here is this chemical, which was made by the secret process, was on sale. It wasn't publicly available how to make the chemical with the secret process, but the chemical made by the process was on sale for a number of years.

Usually, you can you have a year or less to file your patent after you're starting to sell the invention. So multiple years, typically, would knock you out. But perhaps not in this case. Let's see. Does the patent process, use of the process for multiple years, mean they're not entitled to a patent on the process? And then the answer is yes, you're not entitled to that protection. And I want to highlight something that the case law covers. And that was, and that is important in this analysis. We're going to go to the Constitution of the United States. So the Constitution, the Intellectual Property Clause, Article One, Section 8, Clause 8, grants patent rights as follows: "To promote the progress of science and useful arts, by securing for [a] limited time[] to authors and inventors the exclusive right [in the] respective writings and discoveries."

So what courts focus on here and what commentators focus on and what the Constitution has us focus on is that we're promoting the progress of science and the useful arts. So patent law, the way this is applied in courts, is that patent law should not be used to give a monopoly to inventors or claimed inventors for longer than is necessary to promote progress.

If you have a secret process, and then use that for a number of years, you exploit, your exploiting your invention. And then you go to get a patent and get an additional 17 or 20 years of exclusivity and monopoly, you're not following the constitutional commands in some judges' minds. Because you're getting an extended monopoly. You can exploit, as Judge Learned Hand said, you can exploit the—you have to choose—you can exploit the invention by keeping it secret and using it, but once it gets once the word gets out as to how it's done, your exclusivity is over. Or you can provide a, get a patent and have the patent term. But you can't do both.

There's a number of cases that indicate that result. The reason this is being challenged at the ITC is that with the AIA, there's an updated patent that's in force now. There's some additional wording and wording changes in the statute. So the question, before the federal circuit now, is whether that will change the nuances of this basic principle. Looking at some of the oral arguments and papers that the judges seem to bring us back to the Constitution, the federal circuit, seem to be bring us back to the federal circuit, the constitutional command that we need to promote progress in the prior art. So, it's very difficult, of course, to judge how the courts will come out, but we can be certain that the promotion of progress in the arts will be of interest to the judges and likely be considered and applied.

One interesting point here in the *ITC* case, the International Trade Commission, deals with imported goods into the United States and what the ITC can do is block importation. This happened recently with some Apple Watch products. There was a case in which the Apple watches were blocked for a period of time. That's the ITC. So it can be a real big hammer to drop. They, the ITC is an is a commission, but it's not they're not Article Three judges that have lifetime appointment, but they do have great power and they're protecting the United States industry as their guiding statute commands them to do so.

So what the ITC applied is 35 U.S.C. § 271(g), where we're not talking about whether there's a process patent that's being violated in the United States. We're talking about infringement by importing something that's made by a process. Even if you make the product by a process outside the United States, which normally wouldn't infringe, importation of that product can infringe. And that's the point at which it can be stopped.

So we'll see. We'll be watching that as a lot of commentators are, but we'll be watching the result here closely. ITC's briefs are in, as are the patentees, and that's being considered by the court. So the trade secret and patent relationship may change depending on how the court rules. And that may have major implications for numerous manufacturers that keep some of their aspects secret.

I'll now turn it back over to Anthony for some closing remarks.

Anthony Dreyer: Thanks, Chris. That's our program for this quarter.