IS THERE A NEW "NEW NARRATIVE" TO BE TOLD ABOUT PATENTS?

BY CHARLES W. SHIFLEY

In the middle of the Twentieth Century, and before the existence of the Court of Appeals for the Federal Circuit, there was a "narrative" about patents—that wasn't good. With more time and the creation of the Court, and for about 25 years, a new narrative reversed the old one—patents were good! Then an even newer narrative switched back—patents were bad! These days, the U.S. Patent and Trademark Office (PTO) has a new Director, and reflecting only on the recent "bad," he calls for a "new narrative" about patents, one that emphasizes their benefit to society.[1] Is a new "new narrative" possible, at this time, and for the foreseeable future? One in which patents are good?

BEFORE THE FEDERAL CIRCUIT, THE NARRATIVE WASN'T GOOD

The law firm of Banner & Witcoff, Ltd. is pleased to carry the name "Banner," choosing the name of its past partner, Donald W. Banner, for its first name. Don Banner was, before being with us, a Commissioner of the "Patent Office," in 1978-79, a co-founder and President of the Intellectual Property Owners Association (IPO) (among many other IP groups), from 1972-1981, and "[a] key player in the development of the international IP system."[2] He and others founded IPO because of the state of patent law at the time. As IPO's Executive Director Herb Wamsley said on retirement, patents "experienced a terribly difficult period starting from before World War II and continuing through the 1970s. Government antitrust policies and judicial hostility toward patents reduced the value of patents and restricted the ability to license."[3] As a participant in a conference of the Department of Commerce in 1973, Don Banner (and others) agreed that one of the main concerns at the time was the "deterioration of the regard held for the patent system."[4] An infamous vignette of the disregard was revealed in the *Underwater Devices* case.[5] A corporate counsel wrote a corporate manager in 1974 that he should refuse to even discuss a royalty for needed patent rights, in part, because, "Courts, in recent years, have—in patent infringement cases—found the patents claimed to be infringed … invalid in approximately 80% of the cases."[6] Patents were particularly disrespected in regional federal courts of appeal. As written by an early Federal Circuit Senior Judge, Marion Bennett, "[s]ome of the regional circuit courts, expressing strong feelings about the dangers of monopoly and having a low regard for the expertise of the Patent Office, tended not to give any deference to the administrative examination process and invalidated many patents."[7] This generated a "high-risk game of forum shopping."[8] The Department of Justice called it "a crisis for the courts …, litigants who seek justice … the rule of law, and … the Nation."[9]

WITH THE FEDERAL CIRCUIT AND NEW CIRCUMSTANCES, THE PATENT NARRATIVE WAS GOOD, FOR MANY YEARS

The country changed. The Federal Circuit became operational as a court of nationwide jurisdiction in 1982. President Reagan took office just earlier, in 1981; it was "morning again in America."[10] The personal computer market was spinning up; the Apple II computer, one of the first mass-produced personal computers, had started sales five years earlier.[11] Mass-market use of mobile cellular telephones was just ahead; the Motorola DynaTAC received Federal Communications Commission approval in 1983.[12] Broad uses of genetic engineering were ahead; Genentech microbes produced synthetic human insulin by 1978.[13] In 1980, the Supreme Court decided in *Chakrabarty* (a Banner & Witcoff lawyers' case) that living things were patentable.[14] Across a broader period, China opened to foreign manufacturing investment. Wal-Mart was greatly expanding.[15] Meanwhile, patent lawyers discovered juries.[16]

In the first ever Federal Circuit case, the first chief judge, Howard Markey, wrote for the Court and adopted an established body of law as precedent, to jump start its appeals processes.[17] Gone was the jurisdiction of regional courts, and any of those courts' hostility to patents. In less than a year, the Federal Circuit heard *Underwater Devices*, with its notorious vignette. The Court placed on potential patent infringers who knew of patents an affirmative duty to exercise due care to determine whether or not they were infringing.[18] The duty included a need to seek and obtain competent legal advice before starting any possible infringing activity.

Economic confidence rose, including confidence in inventing and patenting—whether by virtue of Reagan rhetoric and tax and regulation cutting, the blossoming of technologies that had already budded, Chinese manufacturing and container shipment of new, inexpensive products to Wal-Mart and the United States, national uniformity in patent law, required due care for patents, or juries in patent infringement cases (or all of this combined). Relatively stagnant patent filing volumes rose and continued rising.[19] Patent damages awards also rose in size.[20]

WITH FURTHER DEVELOPMENTS, THE PATENT NARRATIVE WENT BACK TO BAD

Twenty years passed with the Federal Circuit, along with some economic downturns such as the Savings and Loan Crisis in 1989, factories and jobs leaving for China, and a variety of new happenings in patent law. The narrative surrounding patents swung back to bad.

Not to call it out as most problematic, the U. S. District Court for the Eastern District of Texas decided to jump into handling IP cases.[21] Depending on point of view, with its patent-friendly juries, and overheated, "rocket docket" patent infringement cases, it became too easy for patent owners to win—and win big. About the same time, the Federal Circuit reached a significant decision, *In re Alappat*.[22] On the strength of the Supreme Court's statement that

MORE ▸

[**NEW NARRATIVE,** FROM PAGE 15]

patenting extended to "anything under the sun that is made by man" in *Chakrabarty*,[23] *Alapatt* resolved that those patents with means-plus-function limitations directed to digital electrical circuits, that performed mathematical calculations, had patent-eligible subject matter. To the Electronic Frontier Foundation (EFF), the Court had held that an algorithm implemented on a general purpose computer was patentable.[24] That, it said—to much dispute from others—"opened the floodgates for software patents," patents of "very low" quality, with claims "often vague and overbroad—giving unscrupulous patent owners the ability to claim that their patent covers a wide range of technology."[25] The EFF also thought that "patent trolls" rose, their number of patent infringement lawsuits "skyrocket[ing]," starting in 2005.[26] To many companies reliant on software, pleased with *Alapatt*, its wide scope of patentability, and of the opinion that software patents were no part of "floodgates," "low" quality, vagueness or overbreadth, only positive came with *Alapatt*. But with strong opinions such as those of the EFF, patents gained a new, bad reputation.

CAN THERE BE A NEW "NEW NARRATIVE"?

So back to the introduction. With a whipsawing through bad-to-good and good-to-bad again, and with a new PTO Director calling for a "new narrative" about patents, is a new "new narrative" possible? Can there be a new "morning in America" for patents?

Of course, only time will tell. But consider what caused the earlier change from bad-to-good. First, bad led to the adoption of new law, the law that created the Federal Circuit, and the law it created of due care for patent rights. Fast-forward, in the period since the rise of patent enforcement entities, there has certainly been new law. The prime example is the America Invents Act (AIA), with its creation of *inter partes* reviews (IPRs), and similar post-grant proceedings, to reconsider issued patents. The AIA and IPRs passed a major test in recent months, surviving a constitutional challenge in the *Oil States* case.[27]

Companion changes of law are abundant, and more are on the horizon. The Supreme Court has taken something like 30 patent cases since about year 2000. It has upended patent law, with a much greater restriction on patents, toward fewer patents, confined in scope, more susceptible to challenge, in less patent-friendly venues, with more confined remedies for infringement.[28] By cases including *Alice*, the Court confined patent-eligibility.[29] It confined non-obviousness against more obvious inventions in *KSR*.[30] It limited good patents to only those more definite than indefinite, in *Nautilus*.[31] It made understanding patent claim scope more structured, in *Markman*.[32] It narrowed inducement law in *Limelight*.[33] It changed venue law in *TC Heartland*, moving suits away from the Eastern District of Texas.[34] It reduced the prospects of injunctions against infringement in *eBay*.[35] It curbed design patent damages in *Samsung*.[36] It clipped off post-sale limits on product uses through patent law, in *Impression*.[37] It bucked up IPRs in *Cuozzo*.[38] As well, legislative proposals to work on patent eligibility are abundant.[39]

Second, and beyond second, the earliest bad narrative ended in the surroundings of tax and government regulation cuts. We have a new tax cut, and new cuts to regulations. Now as in the early 1980s, technologies already budded are blossoming, or already blossomed. We live on wireless devices and the Internet. Shopping is by Internet and home delivery. New business models such as app-based ride sharing services are disrupting industries. We get our news from social media. Cars are going electric, and driverless. Solar cells are moving us all at least partially off the electric grid. Wind farms are abundant. GPS location and satellite imaging are getting remarkable new uses in locating vehicles, people, exploring, and finding resources. Virtual reality is letting us travel without leaving home. Robots and drones are on their way. Animals are cloned. Rockets are privately owned and land themselves on recovery pads. Patent law is arguably as uniform as it has ever been. Loose standards for awards of enhanced damages and attorneys' fees impose and heighten, over and above past risks, the need to take due care for patents. Juries remain in cases.

A "flying geese" theory holds that as leading countries have their factories move to follower countries, the managements of the businesses of the countries "move up the technology curve," to more complex products and inventions.[40] China is gearing up Africa to be the world's next great manufacturing center.[41] China has also moved up. We have moved up, through Apple, Google, and all our inventive tech industry giants and others.

Trolls are much less a scourge. The Supreme Court and Federal Circuit case lessons over patent eligibility are being applied at the PTO with increasingly refined directions for examiners to follow, to grant patents on wheat, while denying them, more carefully, on chaff.

We are experiencing U.S. patent filings at incredibly high levels from inventors all over the world. The "fuel of interest" continues to drive "the fire of genius."[42]

It seems, perhaps more to optimists than others, that on reflection over the example of bad-to-good in the 1980s, and our great recent progress, we can go from bad-to-good again. Perhaps for reasons he did not even have in mind, our new Director may be on to something. ■

1. See https://www.law360.com/ip/articles/1035965/uspto-chief-pushes-new-narrative-of-patent-benefits?nl_pk=9df83f8b-7d20-40e1-891e e4e5f4e93630&utm_source=newsletter&utm_medium=email&utm_campaign=ip
2. https://www.iphalloffame.com/don_banner/ and http://www.legacy.com/obituaries/washingtonpost/obituary.aspx?n=donald-w-banner&pid=17022138
3. Herbert C. Wamsley, Keynote Address, IPO Annual Meeting, September 29, 2015 at 3.
4. Proceedings of a conference held in Monterey, California, June 11-14, 1973, U.S. Department of Commerce, at https://books.google.com/books?id=S18ggISFR28C&pg=PA192&lpg=PA192&dq=donald+banner+borg+warner&source=bl&ots=Kl9YvzQ9Et&sig=W1m6bnPQ-KeZiUDzZWKDkk_N7Gw&hl=en&sa=X&ved=0ahUKEwiyz9nApNPaAhWvVt8KHfLMABc4ChDoAQgoMAA#v=onepage&q=donald%20banner%20borg%20warner&f=false
5. *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1385 (Fed. Cir. 1983).
6. *Id.*
7. Marion Bennett, Senior Circuit Judge, The United States Court of Appeals for the Federal Circuit—Origins, at 10, within The United States Court of Appeals for the Federal Circuit, A History 1982-1990.
8. *Id.*
9. *Id.*, citing H.R. Rep. No. 312, 97th Cong., 1st Sess. 17 (1981), itself quoting Report of the Dept. of Justice Comm. On Revision of the Federal Judicial System 1 (1977).
10. https://www.youtube.com/watch?v=EU-IBF8nwSY

MORE ▸

[**NEW NARRATIVE,** FROM PAGE 17]

11. https://en.wikipedia.org/wiki/Apple_II
12. https://en.wikipedia.org/wiki/Motorola_DynaTAC
13. https://en.wikipedia.org/wiki/History_of_biotechnology
14. *Diamond v. Chakrabarty*, 447 U.S. 303 (1980)(Banner & Witcoff lawyers Ed McKie and Dale Hoscheit won for Chakrabarty and General Electric).
15. https://en.wikipedia.org/wiki/History_of_Walmart
16. https://economics.indiana.edu/home/about-us/events/conferences-and-workshops/files/2011-04-22-01.pdf at page 15.
17. *South Corp. v. United States*, 690 F.2d 1368 (Fed. Cir. 1982) (adopting the law of the Court of Customs and Patent Appeals).
18. *Underwater Devices*, 717 F.2d at 1379-80.
19. https://www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.pdf
20. See the article of endnote xiii at 15.
21. https://www.dallasnews.com/business/technology/2017/05/24/east-texas-supreme-court-ruling-setback-towns-final-verdict-locals-say
22. 33 F.3d 1526 (Fed. Cir. 1994).
23. *Diamond v. Chakrabarty*, 477 U.S. 303, 309 (1980)
24. https://www.eff.org/deeplinks/2013/02/deep-dive-software-patents-and-rise-patent-trolls
25. *Id.*
26. *Id.*
27. *Oil States Energy Services, LLC v. Greene's Energy Group, LLC*, No. 16-712 (April 24, 2018).
28. The Court admittedly maintained clear and convincing evidence to prove obviousness, in *Microsoft Corp. v. i4i Ltd. Partnership*, 131 S.Ct. 2238 (2011). It opened equivalent infringement against an absolute bar of estoppel in *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722 (2002). It opened up willfulness and attorneys' fees awards in *Highmark Inc. v. Allcare Mgmt.*, 134 S.Ct. 1744 (2014) and *Octane Fitness v. Icon Health & Fitness*, 134 S.Ct. 1749 (2014). It blocked laches, in *SCA Hygiene v. First Quality Baby Products*, 137 S.Ct. 954 (2017). It cut back antitrust liability associated with patents in *Illinois Tool Works Inc. v. Independent Ink*, Inc., 547 U.S. 28 (2006).
29. *Alice Corp. Pty., Ltd. v. CLS Bank Int'l*, 134 S.Ct. 2347 (2014).
30. *KSR Int'l. Co. v. Teleflex Inc.*, 550 U.S. 398 (2007).
31. *Nautilus, Inc. v. Biosig Inst's., Inc.*, 134 S.Ct. 2120 (2014).
32. *Markman v. Westview Instruments, Inc.*, 517 U.S. 370 (1996).
33. *Limelight Networks v. Akamai*, 134 S.Ct. 2111 (2014). It accepted broadened inducement to include willful blindness in *Global-Tech Appliances, Inc. v. SEB SA*, 131 S.Ct. 2060 (2011). It held a belief of invalidity was not a defense to induced infringement in *Commil USA, LLC v. Cisco Systs., Inc.*, 135 S.Ct. 1920 (2015).
34. *TC Heartland v. Kraft Foods Group Brands*, 137 S.Ct. 1514 (2017). The Court narrowed Federal Circuit jurisdiction in *Holmes Group, Inc. v. Vornado Air Circulation Systs., Inc.*, 535 U.S. 826 (2002), but Congress added that jurisdiction back in the AIA. The Court broadened declaratory judgment jurisdiction to license-holding patent challengers in *Medimmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007).
35. *eBay Inc. v. Mercexchange*, 547 U.S. 388 (2006).
36. *Samsung Elec's. Co. v. Apple Inc.*, 137 S.Ct. 429 (2016).
37. *Impression Products v. Lexmark Intern.*, 137 S.Ct. 1523 (2017).
38. *Cuozzo Speed Techs. LLC v. Lee*, 136 S.Ct. 2131 (2016).
39. http://www.ipwatchdog.com/2017/07/25/patent-bar-groups-propose-legislation-fix-patent-subject-matter-eligibility-problems/id=86015/
40. *Id.*
41. https://hbr.org/2017/05/the-worlds-next-great-manufacturing-center
42. Attributed to Abraham Lincoln.

NORTH SHORE CORPORATE IP ROUNDTABLE CELEBRATES FIRST YEAR

The North Shore Corporate IP Roundtable will soon complete its first successful year of bringing in-house intellectual property counsel who live or work in the North Shore suburbs together to share ideas and best practices. The group meets every other month in Northbrook and discusses such topics as building and monetizing patent assets, setting IP budgets, and extracting IP value.

"We provide relevant, meaningful CLE content with practical takeaways for in-house counsel in an environment that encourages discussion and sharing of best practices," said Binal J. Patel, a principal shareholder at Banner & Witcoff and the organizer of the group. "We are excited to have created a program that resonates so well with its members and look forward to seeing it grow in the future."

For more information on the North Shore Corporate IP Roundtable, please e-mail info@bannerwitcoff.com.