LITIGATORS CORNER:
The Hole and the Patch

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The hubbub over modifications to the patent system is on the front burner and the gas is turned way up. Everyone — economists, academics, politicians, bar associations, journalists — wants a starring role in the theater of patent reform. It's hot. Even the *New Yorker* and the *Economist* have had articles on the subject. But we don't seem to be hearing much from the people in the trenches, the ones who are engaged in patent lawsuits and trials: inventors, lawyers, jurors and judges. They alone see how the patent law really works, and they alone know how difficult it is for a patent owner to prevail — as I explained in my last month's column. We do hear from representatives of some organizations, which have discovered, belatedly and to their annoyance, that their commercial activities infringed someone else's property rights. And that "someone else" who annoys them is an inventor — a thinker — who cannot be dealt with, like an employee, with the gift of a gold watch. Those who are far away, like politicians in a Vietnam-era Washington, D.C. war-room dictating tactical decisions ten thousand miles away, want to run patent law. That's like running a train or flying an airplane without ever having ridden on either.

All this stewing about reform has caused me to wonder: why not come up with my own scheme for reform? Everyone else is cooking one up, including people who have far less contact with the day-to-day dealings of patent law than I do. Why can't I lob my hand grenades, just like everyone else? Should patent law be reformed and, if so, how? Do we want patent oppositions? Do we want post-grant proceedings? Do we even want a Patent Office?

Three main goals of any reform are uppermost in my mind: speed, simplicity, and predictability. Rules are a waste of time, and a needless drag on human activity and economic development, if no reasonable person can comprehend those rules — no one, that is, except the high priesthood of lawyers. And we aren't doing so well at interpretation, either. In fact, we're lost in a Bermuda Triangle. *Chisum's Federal Circuit Digest* used to be a handy little book; now it's bigger than a New York City telephone directory. Let's face it: there is no certainty in claim construction, or in the interpretation of file histories.

A legal problem I was analyzing recently caused me to notice a difference between patent law on the one hand, and copyright and trade secret law on the other. I am familiar with the differences, or at least I thought I was. One difference I will discuss here leads me to some conclusions about what we should consider doing if we are to make patent law simpler and fairer for everyone. As Thomas Jefferson said, the hole and the patch should be commensurate. To me, the proposals I have seen do not meet his standard. I will compare patent and copyright law first, and then patent and trade secret law.

Patents and copyrights have equal standing under the Constitution. Both forms of protection have resulted in major innovations of all kinds, technical and artistic, that have influenced our lives. But they are different in more ways than just the property each protects. One of the ways in which the complexity of patent law manifests itself is in the defense of inequitable conduct.

The problem I was dealing with was a copyright issue. A company accused my client of infringing its copyright on a label it claimed to have prepared for my client's use on packaging. The label also included my client's trademark, which has been registered in the Patent and Trademark Office for over thirty years. That trademark certainly was not original with the company claiming the copyright. The accuser had considerable nerve, I thought, to seek to register a copyright using someone else's trademark. There were other problems, too: the accuser hadn't bothered to tell the Copyright Office that his application included a registered trademark belonging to my client. In addition, his copyright registration included some information that appeared to be erroneous.

I knew that inventors are haunted by every word spoken in a prosecution. Since the alleged owner of the copyright had to know the correct circumstances, I wondered if there were any legal consequences flowing from the act of deliberately making inaccurate statements to the Copyright Office about facts important to registration and copyright. In other words, is there in copyright law an analog to the defense of inequitable conduct in patent law? After all, the property rights of copyright owners are powerful, more powerful in some respects that the rights of patent owners.

Many of you may already know the answer. I had to hit the books. What I found is that intellectual property protected by a copyright is quite different in this respect from intellectual property protected by a patent. These differences might be important to anyone studying possible ways to change the patent office.

Fraud on the Copyright Office doesn't get very far. Many cases appear to adopt a tolerant attitude toward errors in a registration. For example, *Lennon v. Seaman*, 84 F.Supp. 522, 525 (S.D.N.Y. 2000) required that a party alleging fraud on the Copyright Office prove that the application was inaccurate, that the inaccuracies were deliberate, and that the Copyright Office relied on the misrepresentations. It also cited other cases holding that fraud required a finding of actual prejudice stemming from the inaccuracy. That is common law fraud.

Common law fraud is a different standard than applies in patent law. In patent law, there need be no actual reliance by a patent examiner. Nor is there any requirement that actual harm be inflicted on anyone as a result of inequitable conduct. The potential for harm is enough: we require only that the subject of the misstatement or omission might have made a difference to a reasonable examiner.

In patent cases, we often see challenges based on the incorrect identification of inventors. In some instances, inequitable conduct defenses have been predicated on

mis-identification of inventors. But identifying the wrong person as an author of a copyright does not make the copyright unenforceable where the assignee's status was not affected. See *Testa v. Janssen*, 492 F. Supp. 198, 201 (W.D. Pa. 1980).

The defense of unclean hands doesn't appear to get far in copyright suits. According to *Nimmer on Copyright*, this defense is invoked only "on occasion" and "is recognized only rarely." Copyright registrations can be liberally amended. According to *Nimmer*, failures to name the right author or the right copyright claimant, as well as errors regarding the derivative nature of the work and other significant errors, are all correctable.

In copyright law, there is another difference. Patents are rendered unenforceable by inequitable conduct. Every claim of the patent in question is affected, and even related patents can, in the right circumstances, be unenforceable. Some copyright decisions deal differently with the consequences of errors in copyright registrations. Instead of invalidating a copyright, the owner loses the presumption of validity.

I mentioned that copyrights are powerful. That power manifests itself in remedies for copyright infringement. Copyright law includes penalties not available under patent law. Infringing articles can be impounded or destroyed (17 USC Section 503). Criminal penalties exist (17 USC Section 506). The plaintiff only has to prove the infringer's profits. The defendant has the burden to prove its costs. These provisions are draconian compared to patent law, where the damage is a reasonable royalty that takes into account the infringer's circumstances in a hypothetical negotiation. There are two different lobbies at work in copyright and patent law, and the law reflects it.

The treatises unwittingly give a good indication of the relative importance of inequitable conduct in copyright and patent law. In *Nimmer on Copyright*, the sections on fraud on the Copyright Office and unclean hands cover eight pages and three pages respectively. Conversely, in *Chisum on Patents*, the section on inequitable conduct is two hundred and eighty pages. As *Chisum* says, "the available literature on the subject of fraudulent procurement and inequitable conduct is vast." Too vast, some might say.

A third type of intellectual property is trade secrets. This protection, of course, is not mentioned in the Constitution; it originates in state case law and the Uniform Trade Secrets Act. A recent trade secret case in our circuit is interesting. In *Learning Curve Toys, Inc. v. Playwood Toys, Inc.* 342 F.3d 714 (7th Cir. 2003), Playwood was endeavoring to break into the toy market. Its prototype wooden toys caught the eye of Learning Curve, which made a wooden toy train. Confidential discussions ensued. Learning Curve's toy train was selling well, but its track was selling poorly. The confidential discussions centered on improving the track. Playwood's designer took about fifteen minutes, and came up with the idea of slotting Learning Curve's track, so that it made a "clickety-clack" sound. Learning Curve swiped the idea.

The district court set aside the jury's verdict in favor of Plywood; it held there was no trade secret; that the idea to notch the track was trivial, and easily duplicated. The court of appeals reversed, reinstated the jury verdict, and ordered a jury trial on exemplary damages. (The case settled.) It's hard to imagine anyone being successful in patenting this trade secret, yet it was the basis for recovery in the suit, and even resulted in exemplary damages because the misappropriation was intentional, and Learning Curve tried to cover its tracks, pardon the pun.

Trade secrets and copyrights are two ways in which we protect intellectual property and provide for its growth; the lack of intellectual property is a sign of a backward society. Neither type of protection requires a prolonged examination by an agency as a condition of creating the property right. A copyright registration is a form: fill it out and you can go to court, and really pummel your opponent. Trade secrets don't even require a form, much less any examination by an independent agency. On your own say-so, you can file a lawsuit, and get triple damages, as in a patent case.

Neither copyright law nor trade secret law spends time on inequitable conduct. But patents are different. They do require examination. That examination has given rise to the inequitable conduct defense in all its forms: you left off an inventor, you added an inventor, you didn't tell the examiner about our arguments, you lied to the examiner, you didn't correctly describe a reference to the examiner, you gave the examiner too much information, you gave the examiner too little information, you didn't tell examiner A what examiner B had said, and on and on. Patents are quite literally choking on this and many other defenses, and we must ask ourselves: Is it worth it? I will give my thoughts on the answer to that question next month, in the second part of this article. IPT