THE NEW YORK PATENT LAW ASSOCIATION

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COMMITTEE ON MEETINGS

WORKING LUNCHEON MEETING: Thursday, October 25, 1979

The Williams Club, 24 East 39th Street
12:15 p.m. (will adjourn before 2:00 p.m.)

We are pleased to have as our speaker,

KARL F. JORDA, ESQ.
Patent Counsel
Ciba-Geigy Corporation

He will speak on "THE RESPECTIVE RIGHTS OF THE FIRST INVENTOR - TRADE SECRET OWNER, AND THE SECOND INVENTOR - PATENTEE"

Facilities are limited. Please return the attached stub by October 19, to avoid the risk of not being served.

NOTE: The charge for nonreserved seating, at the door, will be $10.50.

THIS IS THE ONLY NOTICE THAT WILL BE SENT REGARDING THIS MEETING.

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THE RIGHTS OF THE FIRST INVENTOR--TRADE SECRET USER AS AGAINST THOSE OF THE SECOND INVENTOR-PATENTEE

I. INTRODUCTION

While I agree with Frank E. Robbins' statement in the preceding article that the issue of the respective rights of the first inventor who elects to hold and use patentable subject matter as a trade secret and the second independent inventor who seeks and obtains patent protection thereon, is "a fundamental one", I dissent - respectfully but strenuously - from his conclusions that it "is clear that the patent of the second inventor is not invalid by reason of the prior commercial but secret, non-informing use of the trade secret" and that "the patent of the second inventor (is definitely) good as against all members of the public, including the secret user, so that the secret user infringes".

It is noteworthy that Frank E. Robbins supports his conclusions by reliance on cases of considerable vintage. Their relevance and validity in this day and age, however, is open to question, to say the least. It is also notable that he ignores

such recent landmark cases as Dunlop Holdings Ltd. v. Ram Golf Corp.[1] and Kewanee Oil Co. v. Bicron Corp.[2] as well as several other cases of import in this area, or at least their real holdings.

In a narrow conventional patent context the conclusions drawn by Frank E. Robbins may still have a good deal of appeal and plausibility. However, in a broader industrial property context and from a scrutiny of recent decisional developments in both the patent and trade secret fields, the conclusion can confidently be drawn that it is now indeed possible and safer for a first inventor/trade secret owner to stand on his trade secret election inasmuch as the late-comer patentee ends up with an invalid patent. At the very least, the matter of the conflict between the first inventor/trade secret owner and the second inventor/patentee is, in view of the decisional developments of recent years, as discussed below, an open and unresolved issue in industrial property law[3] for which, however, there is an ideal, albeit legislative, solution: a trade secret owner's in personam right to continue to practice his trade secret.

1/ 188 USPQ 481 (7th Cir. 1975), cert. den. 189 USPQ 256 (1976)

2/ 181 USPQ 673 (Sp. Ct. 1974)

3/ See New York Patent Law Association Bulletins, Vol. 14, No. 5, Dec. 1974-Jan. 1975 and Vol. 16, No. 3, 1976-1977, which summarize dinner and luncheon talks by Roger M. Milgrim and 45 Geo. Wash. L. Rev. 296, 299-300 (1977) where Roger M. Milgrim reviews Rosenberg's book "Patent Law Fundamentals" and criticizes Rosenberg for treating "as a simple and closed question" this "extremely important open issue".

II. RECENT TRADE SECRET DECISIONS

As indicated above, Frank E. Robbins' conclusion must be controverted, on the one hand, because of recent decisions in the area of trade secret law, which clarify the status of trade secrets vis-a-vis patents and which put trade secrets on a higher pedestal. The Supreme Court decision in Kewanee Oil v. Bicron, supra, comes first to mind. The facts are too well-known to be repeated here. The holding is the important thing and the holding in a nutshell is that state trade secret law is not preempted by the federal patent law.

More specifically, the Court held[4]:

> "Certainly the patent policy of encouraging invention is not disturbed by the existence of another form of incentive to invention. In this respect the two systems are not and never would be in conflict".
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> . . . . . .
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> "Trade secret law and patent law have co-existed in this country for over one hundred years. Each has its particular role to play, and the operation of one does not take away from the need for the other".
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> . . . . . .
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> "We conclude that the extension of trade secret protection (even) to clearly patentable inventions does not conflict with the patent policy of disclosure".

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[4]/ 181 USPQ at 679 and 682

This last quotation is the clincher because it followed a three-way categorization of trade secrets (clearly unpatentable, of doubtful patentability and clearly patentable) and a recognition that "the federal interest in disclosure is at its peak" with respect to the third category[5].

The more recent Supreme Court decision, Aronson v. Quick Point Pencil Co.,[6] has, if anything, further strengthened the bases for trade secret reliance.

III. SECTION 102(g) DECISIONS

On the other hand, Frank E. Robbins' conclusions are controvertible because of recent decisions in the patent field, especially in the area of Section 102(g).

1. The Dunlop Decision

With respect to the specific issue before us, the Dunlop case, supra, is undoubtedly the key case - clearly a landmark decision - and therefore merits a more thorough treatment. It held that a noninforming use of an invention, with secrecy intended, bars a patent to a subsequent inventor and it invalidated U.S. Patent No. 3,454,280 on a new kind of golf ball under Section 102(g).

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[5]/ Idem at 681

[6]/ 201 USPQ 1 (1979)

The facts are as follows: In the Spring of 1964 a certain "Butch" Wagner was interested in producing a golf ball cover that would resist cutting. About the same time DuPont was trying to find a commercial use for a new synthetic named "Surlyn". Before long, Wagner was experimenting with Surlyn. By November of 1964, he had developed a suitable formula which he wrote down and gave to his daughter for safekeeping.

Meantime, Wagner gave friends and golf pros his Surlyn-covered balls to try out on the course, and they were a great success. He continued to experiment but by February of 1965 Wagner had received orders for over 1,000 dozen of his balls. By the Fall of 1965 he had ordered enough Surlyn to produce more than 900,000 balls. He died in October, 1965, without having applied for a patent.

In Great Britain, however, somebody had applied for a patent, namely, on February 10, 1965. And then a U.S. application was filed on February 2, 1966. Dunlop wound up owning the British and American patents issued as a result. When Ram Golf started marketing a Surlyn-covered ball in this country, Dunlop sued for infringement of its U.S. patent.

Ram Golf asserted that Dunlop's patent was invalid because a valid U.S. patent cannot be obtained if the invention was made earlier in this country by somebody who had not abandoned, suppressed, or concealed it. Naturally, Dunlop latched onto that clause, arguing that Wagner had suppressed and concealed his invention because he had never let anybody know what the magical secret ingredients were. And importantly, the golf balls defied analysis.

But the Seventh Circuit Court of Appeals in affirming the lower court said that an important distinction must be made between a "secret" use and a "noninforming" public use. Though Wagner didn't tell what made his golf balls unusual, he certainly made every effort to market them and they were in widespread public use before February, 1965 (the date of Dunlop's British application, the earliest date it could claim under U.S. law).

The court gave

> "three reasons why it is apprpriate to conclude that a public use of an invention forecloses a finding of suppression or concealment even though the use does not disclose the discovery. First, even such a use gives the public the benefit of the invention. If the new idea is permitted to have its impact in the marketplace, and thus to 'promote the progress of science and useful arts', it surely has not been suppressed in an economic sense. Second,

> even though there may be no explicit disclosure of the inventive concept, when the article itself is freely accessible to the public at large, it is fair to presume that its secret will be uncovered by potential competitors long before the time when a patent would have expired if the inventor had made a timely application and disclosure to the Patent Office. Third, the inventor is under no duty to apply for a patent; he is free to contribute his idea to the public, either voluntarily by an express disclosure, or involuntarily by a noninforming public use. In either case, although he may forfeit his entitlement to monopoly protection, it would be unjust to hold that such an election should impair his right to continue diligent efforts to make the product of his own invention".

2. Applicability of Dunlop Rationale to Present Fact Pattern

Does this three-pronged rationale of the Dunlop decision apply to the fact pattern outlined by Frank E. Robbins, where no product is on the market that is subject to reverse engineering or analysis, even though it defies it, as in the Dunlop case? I submit it does. Firstly, without peradventure of a doubt there is a benefit to the public and no suppression in an economic sense, precisely as in the Dunlop case. Secondly, the point that the secret is likely to be uncovered before patent expiration, clearly applies, too, though not by way of reverse engineering or analysis but rather because trade secrets can be considered as "wasting

assets" whose average life perhaps is only about three years. Besides, independent creation is quite likely as was recognized by the Supreme Court in the Kewanee Oil case[7]:

> "Even were an inventor to keep his discovery completely to himself, something that neither the patent nor trade secret laws forbid, there is a high probability that it will be soon independently developed. If the invention, though still a trade secret, is put into public use, the competition is alerted to the existence of the inventor's solution to the problem and may be encouraged to make an extra effort to independently find the solution thus known to be possible".

It may be a little more difficult to apply the third point in the Dunlop rationale but I submit that this can also be done without too much stretching. Independent creation is indeed possible if not likely; several employees usually know the trade secret; suppliers may also be "in the know"; governmental agencies may likewise be informed; there may be a licensee or several who definitely would have the details; the trade secret may get out by way of misappropriation.

7/ 181 USPQ at 681

The authors of Patent Law Perspectives criticized this decision stating that Judge, now Justice, Stevens "led a panel of the Seventh Circuit astray." Hitting the nail on the head, they continued: [7a]

> "The appeals court apparently couldn't bear to treat Wagner's active use of Surlyn covered golf balls as concealment or suppression of the invention under Section 102(g), even though it did not teach the public how to practice the claimed invention. As noted, the court was convinced that the public had received the 'benefit'".

7a/ PLP, §A.3[1] of '76 Dev., p. 38-39.

3. Other Recent Decisions

In Westwood Chemical Inc. v. Dow Corning Corp.,[8] an even broader and more drastic application of Section 102(g), a patent held by Westwood on pigmented silicone elastomers was held invalid in the face of a Section 102(g) defense based on prior independent secret work done at Dow Corning. The court held that a

> "'prior invention" which will invalidate a patent under §102(g) need not involve use of the invention in public. Prior private or secret knowledge is available as prior art....This independent work of others is also clearly evidence of obviousness."[9]

The language in this holding as in many is quite loose if not confused (note e.g. the reference to "secret knowledge" but "knowledge" is a bar only under Section 102(a) and only if it is public) but it seems that Dow Corning had a big in-depth R&D project in this area while the Westwood patent was but a paper patent in the sense that first it was based on graphite chemistry and secondly was not in use. Again, apparently equity and justice considerations played a significant part, especially since a paper patent was involved.

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[8]/ 189 USPQ 649 (E.D. Mich. 1975)

[9]/ Idem at 666

Another case is Grain Products v. Lincoln Grain,[10] in which a patent applied for by defendent in 1960 on cold-water-dispersible cereal products was voided under Section 102(g) because in 1949(!) an employee of plaintiff "produced gelatinized cereal adhesive on a plastic extruder... (and) made 35 tests(!) using corn meal and flour and varying moisture, die area, feed rate and extruder temperature". The court considered this work as the "prior invention of the subject matter" of defendant's patent by plaintiff's employee. Based on this prior work the court went on to hold the patent also invalid under Section 103.

Also to be noted in this context are such cases as Continental Copper and Steel Industries Inc. v. New York Wire Company,[11] where the court, unlike in the two preceding cases, discussed at length the requirements and the burden of proof of a Section 102(g) defense but struck down Continental's patent nonetheless. This also happened in Norris Industries Inc. v. The Tappan Company.[12] There has been a greater frequency of

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[10]/ 191 USPQ 177 (S.D. Ind. 1976)

[11]/ 196 USPQ 30 (D.C.M.D.Pa. 1976)

[12]/ 193 USPQ 521 (D.C.C.D.Cal. 1976)

reliance on Section 102(g) and a greater incidence of invalidity holdings based on Section 102(g) in recent times. Klitzman found that in 1974 there were two Section 102(g) invalidity holdings for every validity holding in the face of a Section 102(g) defense or attack.[13] In 1976 the ratio appeared to be more like six to one.[14]

IV. MISCELLANEOUS CONSIDERATIONS

It is further noteworthy in this respect that according to some of these Section 102(g) decisions the prior activities, even if abandoned, are nonetheless evidence of the level of ordinary skill in the art at the time the later invention is made and can thus be used in a Section 103 context[15].

Curiously, some older, pre-1952 cases have holdings in a similar vein. In the 1928 Supreme Court Decision, Corona Cord Tire Co. v. Dovan Chemical Corp.[16] a patent was invalidated over prior

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[13]/ Klitzman, "35 USPQ 102(g) As Establishing Prior Art", 58 JPOS 505, 521 (1976)

[14]/ Jorda, "Section 102(g) Prior Invention as Section 103 Prior Art", Lecture at 21st Annual Conference, John Marshall Law School, Chicago, Ill., Feb. 25, 1977

[15]/ International Glass v. US, 159 USPQ 434 (Ct/Claims 1968)

[16]/ 276 US 358

experimental use and in United Chromium v. General Motors Corp.[17] a patent was struck down over prior private use.

If there is a general rule that can be deduced from all of these and other apposite cases it is this: A second inventor can have a valid patent only if the first inventor's work amounted to nothing more than abandoned experiment, i.e., where his invention was not developed, scaled-up and used commercially, or if he rediscovered a lost art. And if he has only a paper patent, his position is hopeless to begin with.

It is also a curious fact that there is no case on the books where a first inventor/trade secret owner has been enjoined from practicing his invention/trade secret by a late-comer patentee even though there are literally scores of cases starting from before Mason v. Hepburn where the second inventor prevailed on the issue of priority in an interference context. Nonetheless, it has generally been assumed that this can happen. Hence, the race to the PTO ab initio or after being spurred into activity by a competitor, e.g., through his commercial activities or his US or foreign patent publications.

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[17]/ 85 F. 2d 577 (2d Cir. 1936), cert. den. 300 US 674 (1936)

Note that Charles Brainard concluded in the 1975 PLI Trade Secret Program[18] that

> "even a second inventor may secure a patent and enjoin a first inventor who has kept the development secret and not diligently applied for a patent even though he has commercially used the development"

and he relies on Palmer v. Dudzik,[19] for this conclusion. This case, as well as Brókaw v. Vogel[20] and Young v. Dworkin,[21] are mentioned in this context.

However, as was stressed by Bennett,[22] the CCPA's pronouncement "is purely dicta, if that, since the CCPA has no jurisdiction with respect to enforcement of a patent nor was that legal question before it. The decision was merely a determination of priority in an interference context." In other words, for a second inventor to obtain a patent and to enforce it are different propositions entirely.

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[18]/Milgrim, "Protecting and Profiting from Trade Secrets", PLI 1975, p. 129

[19]/178 USPQ 608 (CCPA 1973)

[20]/166 USPQ 428 (CCPA 1970)

[21]/180 USPQ 388 (CCPA 1974)

[22]/Bennett, "The Trade Secret Owner Versus the Patentee of the Same Invention: A Conflict?", 57 JPOS 742, 747 (1975)

Since no one seriously questions the proposition, found in such priority cases, that the trade secret owner is not entitled to seek patent protection after steps are taken to maintain secrecy, there is really no conflict between this line of CCPA cases and the line of district/circuit court cases as represented by the Dunlop case. In none of these reversed priority situations, starting with Mason v. Hepburn, has the second inventor/patentee apparently tried to then stop the first inventor/trade secret owner. Why not? This is an intriguing question. Bennett speculated that such a late-comer patentee may be afraid of putting his patent on the block knowing he was not the first to invent.[23] On the other hand, it is not inconceivable that the first inventor/trade secret owner felt, in line with the common understanding, that he had a lost cause and took a royalty-bearing license if the interference had not been settled amicably before. Also and importantly, the trade secret owner might in most cases rather pay a small tribute to the patentee so that patent coverage continues and other competition is shut out.

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[23]/Idem at 742, footnote 2

Questions relative to the meaning of "suppression" and "concealment" and whether these terms are synonymous or mean different things are more semantic and academic in nature than of practical import in this context and need not be disected here. In a trade secret frame, we are really dealing only with the question of "concealment" according to Bennett.[24] But even apart from the Dunlop doctrine and Westwood Chemical holding, concealment would clearly not exist if the trade secret owner had licensed the invention or otherwise disclosed it even though this was done under conditions of confidentiality.

More and more authors show an awareness that the pendulum is swinging toward recognition of trade secrets as effective prior art, i.e., a recognition of the rights of the first inventor/trade secret owner as superior over those of the "Johnny-come-lately" inventor/patentee. Bennett stated with reference to this issue that a Constitutional award to one inventor does not mandate a Constitutional penalty to another.[25]

24/Idem at 746

25/Idem at 748 and 762

In a lengthy and analytical JPOS article[26] back in 1963 the authors already pointed out that Section 102(g) is "a 'sleeper' provision which defeats the patentee on a fact situation wherein the Patent Office granted a patent because no machinery existed for inquiring into priority as between rival inventors, one of whom had not claimed the invention in a patent application", and that "defensive patenting", a fairly wide-spread practice, was an unnecessary exercise because Section 102(g) could be invoked as a defense instead.

More recently, Roger Milgrim had this to say on the subject:

> "Actually as a non-patent lawyer, I am not terribly shocked by that result, for this reason: It seems to me that one of the key things that the courts expect from a patentee is that the patentee was the inventor. If you can establish that the patentee was in fact not the inventor, you get into a very murky philosophical, economical and moral area as to whether a second "discoverer" should be given a 17-year period of exclusivity".[27]

26/Jack Oisher et al., "The Role of the Prior Inventor Under Section 102(g)" 45 JPOS 595, 619 (1963)

27/Proceedings ABA-PTC Section Meeting, Chicago, Aug. 8, 1977, p. 137

Don Sell[27a] and Maurice Klitzman,[27b] citing the Dunlop case, also expressed doubt recently that the patentee would be successful in suing the trade secret user for infringement.

And in a paper delivered at BNA's 1979 Patent Conference[27c] and entitled "The Commercially Utilized Trade Secret: Is It Prior Art?", Stanley Lieberstein drew the following conclusions:

> "There is no case which flatly decides whether a prior inventor, trade secret owner, would have rights greater than a subsequent patentee, but it would seem farily clear from the case law thus far that any patentee who maintained such a suit would run a substantial risk that his patent would be held invalid. A court is not only likely to find that the use by the trade secret owner, inherent in the definition of a trade secret, constitutes a public use but it is also possible that a trade secret owner could establish that he was the first to reduce it to practice, and that he had not abandoned, suppressed or concealed it. In the latter event it appears that it would not even be necessary for a court to find a public use."

27a/Sell, "Business Aspects of Licensing", PLI Course Handbook Series No. 90 on "Current Developments in Patent Law 1978", p. 218

27b/Klitzman, "Looking at Inventorship and 35 USC 102(g)", Paper delivered at APLA Meeting in Washington on October 5, 1979, p. 7

27c/BNA, "1979 Patent Conference: The Novelty Requirements and Other Important Aspects of 35 USC 102", Arlington, Va. September 6-7, 1979, Conference Coursebook, p 418

In view of these new developments, it should now indeed be possible and safer for a first inventor/trade secret owner to stand on his trade secret election rather than be "spurred into activity" and file an application as a panic-stricken but self-defeating reaction the moment he is alerted to competitive activities, in order to get into or provoke an interference in the hope of settling it on the basis of a royalty-free license.

V. THE TRADE SECRET OWNER's IN PERSONAM RIGHT

In dealing with this subject many authors have recommended that the first inventor/trade secret owner be granted a limited in personam right permitting him to continue to practice his invention/trade secret. See, for instance, Benjamin, "The Right of Prior Use",[28] Gambrell, "The Constitution and the In Personam Defense of First Invention",[29] Gambrell et al., "The Second Inventor's Patent, The Defense of First Invention, and Public Policy",[30] and, in particular and very recently, Bennett, supra.

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[28]/26 JPOS 329 (1944)

[29]/39 JPOS 791 (1957)

[30]/41 JPOS 386 (1959)

See also Milgrim, "Trade Secrets", §8.02(3):

> "In practical effect, the foregoing analysis creates a kind of "shop right" in the first inventor and his assigns and licensees predating the second inventor's patent issuance".

And Ellis, "Trade Secrets", §180, speaks of "intervening rights":

> "On general grounds it would appear that intervening rights should exist in favor of one who has made a substantial investment to enable the public to buy the product of his machine or process. The secret user learned nothing from and owes nothing equitably or legally to the subsequent inventor. If the latter is granted a patent, it should not be enforceable against the prior secret user.
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> . . . . . .
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> To give a patent to a subsequent inventor without barring him from suing the first inventor and secret user of the invention, would be to offer as a reward to anyone who could discover the invention by independent research the economic scalp of the first inventor and secret user. The only requirement would be to disclose the invention in a patent application. A user of a secret process or machine would never know when he would wake up to find he had to stop using his process or machine in which he had perhaps invested thousands of dollars and built up a substantial business".

Yet another author called it a "personal easement on the invention".[31]

The contrary position, a position exposed by patent advocates, has been expressed as follows:

> "(W)hen the choice is made to forego a patent and to rely on trade secret protection....the inventor assumes the risk of being enjoined by a later patentee. A corollary to this approach views the trade secret right not as a vested property right but as analogous to an estate subject to a reversionary interest, enjoyed until the happening of a contingent event (issuance of a patent) at which time the property reverts to another (the patentee)."[32]

This rationale, according to Bennett,

> "begs the question because it can hardly be an assumed risk when (1) Kewanee teaches that trade secrets and patents are not incompatible (2) no court has ever decided a case in which the issue was even raised."[33]

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[31]/Silverstein, "The Value of Patents in the United States and Abroad....", 8 Corn. Int'l L. Rev. 135,(1975)

[32]/Bennett, idem. at 756, footnote 41

[33]/Ibidem

Frankly, I cannot see myself how a court in these times of anti-patent bias could rule against a first inventor/trade secret owner, especially if a genuine, blue-ribbon trade secret and substantial investments were involved.

At any rate, no explicit statutory or decisional "shopright", "intervening right", "personal easement" or "in personam right" exists in this country and none of the recent Patent Reform Bills even contemplated one - safe one early exception[34] - and no court is likely to create one but the above authors have pointed out that such right is a first inventor's common law right, exists already in reissue law, would be required by principles of equity and not according it would be taking property without compensation and hence would violate due process principles, etc.

From a narrow point of view, it may not be particularly material to a trade secret owner whether he is entitled to continued practice of his invention/trade secret because the later inventor's patent is invalid or is not enforceable against him. However, from a broader vantage point, it may of course be in his interest that his invention, which is now in the public domain by way of the latter inventor's patent, is not a free-for-all.

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[34]/S.1042 of 1967 vintage (90th Congress) provided that a prior good faith inventor would have a personal defense as a "prior user" provided his actions had not caused a statutory bar effective against a subsequent inventor (Section 274).

In conclusion, I submit there should be such a thing as an in personam right. It is badly needed. It exists all over abroad. The German "Vorbenutzungsrecht" (Right of Prior User) provision is representative:[35]

> "A patent shall have no effect against a person who, at the time of the filing of the application, had already used the invention in... Germany or had made the necessary arrangements for doing so. Such a person shall be entitled to use the invention for the purposes of his own business in his own plant or workshops of others."

The arguments advanced in its favor are eminently logical and convincing. It would be the best and ideal solution and compromise between the clashing public policy considerations and the illogical extremes of either having the first inventor/trade secret owner bow and scrape to the second inventor/patentee ~~or have~~ in a situation where he was the first to develop a business or having the second inventor/patentee end up with an invalid patent in a situation where the first inventor kept the invention secret and took no steps to disclose it to the public.

Karl F. Jorda

35/Sinott, 2B "World Patent Law & Practice", 1974