

The Interplay between Trade Secrets and the First Inventor Defense

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A single piece of intellectual property can often be protected in several different ways. Choosing the right form of protection can be leveraged to maximize the period of exclusive ownership. For example, the Coca-Cola Company elected to protect the formula for the Coca-Cola beverage as a trade secret rather than with a patent. As a result, the formula has been exclusively owned for a period of 121 years, rather than 20 years.¹ Coca-Cola's decision appears to be well-made. However, what consequences would result if someone were to independently develop and seek a patent for the formula for Coca-Cola?

Certainly, not all trade secrets are as valuable as the formula for Coca-Cola. However, consider the ramifications if a process practiced and valued by your organization appeared in the claims of an issued patent or a published patent application. This article will demonstrate that this situation can in fact arise and seeks to shed light on the currently-uncertain rights of a first inventor who practices an invention as a trade secret relative to a second, subsequent inventor who acquires a patent for the invention.

A PROCESS FIRST DEVELOPED BY ONE PARTY MAY BE PATENTED BY ANOTHER

The inventor of a patentable process must choose to practice the process as a trade secret or to seek a patent. Practicing a method as a trade secret is not an *actual* public use since a trade secret is, by nature, secret. However, if a process is secretly practiced for more than one year, the practice of the process can be deemed to have been a public use on the part of the first inventor and the invention is barred from patentability.² Thus, the law is applied punitively to a first inventor who seeks to perpetuate a monopoly and, as a result, a first inventor can lose the right to patent a process even though the process is not actually known to the public.

On the other hand, the secret use of an invention by a first inventor will not preclude a second inventor from obtaining a patent for the invention.³ Prior secret use of an invention by the first inventor is not prior art to the second inventor. The law is applied to reward the second inventor for sharing the invention, at the expense of a first inventor who has concealed the invention. As a result, the first inventor would infringe the patent of the second inventor by continuing to practice the process.

AVAILABILITY OF THE FIRST INVENTOR DEFENSE

A first inventor facing a charge of infringement from a second inventor may benefit from the protection afforded by the "First Inventor Defense" of 35 U.S.C. § 273. Generally, a first inventor defense allows a first inventor to continue practicing an invention without liability for patent infringement to a second, subsequent inventor. Many foreign jurisdictions, such as Germany and the UK, have long provided a first inventor defense. The Defense was introduced to U.S. patent law by the American Inventor's Protection Act of 1999. However, the Defense is limited to subject matter that would infringe a claim directed to a method of doing or conducting business.⁴

The meaning of "business method" may seem intuitively clear to those familiar with patent law. However, pre-conceived ideas about the nature of a "business method" under § 273 should be rejected in favor of objective analysis.

It is generally accepted that the first inventor defense of § 273 was provided in response to *State Street Bank & Trust Co. v. Signature Financial Group*, 149 F.3d 1368 (Fed. Cir. 1998), *cert. denied*, 525 US 1093 (1999). In *State Street*, the court held that business methods are patentable. Despite the court's forceful statements in the opinion that business methods were always patentable, the legal community had generally believed otherwise. As a result, an untold number of potential patentees who

had invented "business methods" had been discouraged from filing patent applications.

Unsurprisingly, subsequent to the decision in *State Street*, patents directed to business methods issued from the patent office with increasing frequency. It was gradually recognized that at least some patented business methods were processes that had been previously practiced by parties who had been discouraged from participating in the patent system.⁵ These inventors had not necessarily been motivated by a desire to perpetuate their monopolies, but instead had believed that the opportunity to patent was not available. The first inventor defense of § 273 recognizes the inequity in subjecting the first inventors of business methods to liability for patent infringement given the generally held view before *State Street* that business methods were not patentable.

In view of the historical background of § 273 it may appear reasonable to conclude that a business method falling under § 273 is any business-related method that would have been unpatentable prior to the decision in *State Street*. This view would constitute a narrow interpretation of § 273. However, a problem with this rationale is that the court in *State Street* asserted business methods were always patentable. According to the court, cases that had been interpreted as barring the patentability of business methods involved inventions that were unpatentable for other reasons.⁶ Thus, there is no case law distinguishing a business method from a non-business method. The designation of a method as a "business method" in previous cases can only be viewed as arbitrary.

The problem is further complicated by the fact that § 273 does not include a specific definition of a business method. Furthermore, at this time, there are no reported decisions interpreting § 273; a case that appeared to be the first to assess the scope of methods falling under § 273 recently settled without elaboration on § 273.⁷ Without the benefit of a statutory definition or case law, the language of § 273 must be applied using traditional canons of statutory construction.

Arguably, under strict construction, any method practiced in the operation of a business constitutes a *business* method. However, such a broad definition would seem to cover most patented methods since most patented methods are practiced in the context of a business. Thus, "limiting" the

Defense to methods practiced in the operation of a business would appear superfluous; the limitation swallows the rule.


The legislative history of § 273 is also problematic. While the statutory language of § 273 appears to intend limited availability for the Defense, the legislative history includes statements that support the broad definition of business method. For example, Senator Schumer of New York stated that a business method is “a practice, process, activity, or system that is used in the design, formulation, testing, or manufacture of any product or service.”⁸ Representative Howard Coble of North Carolina stated that a method covered by § 273 “may be an internal method for doing business, such as an internal human resources management process, or a method for conducting business such as a preliminary or intermediate manufacturing procedure, which contributes to the effectiveness of the business by producing a useful end result for the internal operation of the business or for external sale.”⁹ On the other hand, certain aspects of legislative history indicate that a narrow definition of business method is precisely what was intended.¹⁰

Thus, both narrow and broad interpretations of “business method” as used in § 273 are less than conclusive. A narrow interpretation that would define a business method as a method that would not have been patentable prior to State Street is problematic because the court in State Street eviscerated any persuasive authority that previous “business method” cases might have provided. Specifically, the court asserted that all of these cases were decided on grounds different than whether the methods at issue were business methods. A broad interpretation of “business method” could be applied to cover any method used in conjunction with a business and is problematic because it would cover the vast majority of methods while the construction of the statute appears to intend limited application.

LOOKING AHEAD

Congress acted relatively quickly after the American Inventor Protection Act of 1999 with at least four bills introduced between 2000 – 2004 which included provisions related to business method patents.¹¹ Presumably, at least one of these bills would have provided further guidance on the definition of a business method.

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However, none of these bills resulted in a change to § 273 and the meaning of a “business method” remains unresolved. The most recent Legislative activity, Senate Bill S. 1145, initially proceeded with a section that expanded prior user rights. However, that section was deleted by a “manager’s amendment” on June 21. Committee Chairman Patrick Leahy’s (D-Vt.) press assistant issued a statement saying, “[a]fter hearing a number of concerns about this, especially from the university and research communities that feared adverse impacts on their efforts to innovate, the managers in the Amendment deleted that provision.” Prior user rights may yet be part of the current reform, added by amendments to the Senate bill or the House bill (H.R. 1908). Ultimately, the forces of harmonization should result in a broad first inventor defense for U.S. inventors, similar to defenses enjoyed by European inventors. In the meantime, the persuasive arguments can be for and against a broad scope of methods under § 273, as well as for and against a narrow scope.

ENDNOTES

1. The formula was developed in 1886. http://en.wikipedia.org/wiki/Coca-Cola_formula.
2. See Metallizing Eng'g Co. Inc. v. Kenyon Bearing & Auto Parts Co. Inc., 153 F. 2d 516 (2nd Cir. 1946); Invitrogen Corp. v. Biocrest MFG. L.P., 424 F3d 1374 (Fed. Cir. 2005).
3. See W.L. Gore & Associates, Inc. v. Garlock, Inc., 721 F. 2d 1540, 1550 (Fed. Cir. 1983).
4. 35 USC §§ 273(a)(3) and (b)(1).
5. Congressional Record, November 17, 199, page S14708, S.1948, statements of Senator Lott.
6. State Street, 149 F. 3d at 1375.
7. See PB Farradyne, Inc. v. Peterson, No. C05-03447 SI, 2006 U.S. Dist. LEXIS 3408 (N.D. Ca. January 13, 2006).
8. Congressional Record articles from the 106 Congress; Intellectual Property and Communications Omnibus Reform Act of 1999; (Senate - November 18, 1999), Page: S14836.
9. Congressional Record articles from the 106; American Inventors Protection Act of 1999; (Extensions of Remarks - August 05, 1999), Page: E1788
10. Jeffrey P. Duke, The First Inventors Defense Act: Have Prior User Rights in Patent Law Been Resurrected? 20 Saint Louis University Public Law Review 223-243 (2001). The article asserts that the current first inventors defense is a “shadow of an affirmative defense once contemplated by Congress.” p. 225, fn 15.
11. The Business Method Patent Improvement Act of 2000; The Patent Improvement Act of 2001; The Intellectual Property and High Technology Technical Amendments Act of 2001; The Patent Quality Assistance Act of 2004.