What Happens if a Competitor Patents My Trade Secret?

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The clock starts ticking for a company to decide how best to protect an invention as soon as it is developed. Two likely candidates that a company's counsel should evaluate are: (1) patent protection; and (2) trade secret protection. Trade secret protection can be a cost effective option relative to patent protection, but does create risk if another party independently develops and patents the same technology. As part of the America Invents Act (AIA), "prior user rights" can in some situations establish a company's right to continue to practice an invention maintained in secret even if another entity later patents the invention.[1] As detailed herein, before relying on the existence of prior user rights to protect the company, the company's counsel needs to be willing to accept the inherent risks as part of a tradeoff for potential cost savings and not having to publically disclose the invention.

Processes, software, or devices used in-house at a company that cannot be discerned from a final product may be well-suited for trade secret protection. Examples of such processes can include manufacturing processes that are not detectable in the manufactured product or server-side software improvements that are not readily discernable to end users. While patents include significant up-front costs, public disclosure of the invention, and have a fixed term of protection, trade secrets tend to be less expensive to maintain, are by definition kept secret, and potentially can be maintained indefinitely. Moreover, if the company did obtain a patent on the technology, enforcing the patent can be difficult due to the company's inability to determine if competitors are internally practicing the invention without extensive discovery.

But what happens if a competitor later independently develops the same invention and is granted a patent? If a company's invention was maintained as a trade secret, it would not serve as prior art against the competitor obtaining a patent. The company would potentially be in the position of having been first to develop the invention but unable to continue commercializing it since the competitor later obtained a valid patent covering the technology.

To address this situation and help protect inventors and their companies that choose to keep their invention secret, the America Invents Act (AIA) expanded the concept of "prior user rights" to cover a wide variety of inventions. Under the revised law:

> "A person shall be entitled to a defense . . . with respect to subject matter consisting of a process, or consisting of a machine, manufacture, or composition of matter used in a manufacturing or other commercial process, that would otherwise infringe a claimed invention if . . . such person, acting in good faith, commercially used the subject matter in the United States . . . in connection with an internal commercial use . . . ."

35 U.S.C. § 273.

[1] The concept of prior user rights initially came into law in 1999, but only provided a defense for methods of doing or conducting business. 35 U.S.C. § 273.

On its face, the statute provides a defense to patent infringement for companies that have developed and use technology that is being protected as a trade secret. While the existence of such a statute may be enough assurance for a company's counsel to elect trade secret protection over patent protection, there are important caveats and pitfalls.

The first caveat is evident in the above excerpt of 35 U.S.C. § 273: for prior user rights to be a valid defense against patent infringement, the invention must be used within the United States. Thus, prior user rights are unavailable for foreign manufactures. Moreover, if a company develops a new manufacturing process that is initially only performed at a manufacturing facility outside of the United States and later used at a manufacturing facility within the United States, the time during which the invented manufacturing process was being practiced only outside of the United States would not establish an initial date of prior use for the purposes of § 273. This caveat is particularly important for situations in which a company is relocating manufacturing facilities or server facilities to the United States. Even though a technology may have been practiced in secret for many years overseas, this use would not establish prior user rights under § 273 in the United States.

Establishing the date of when use of the secret invention began within the United States is of paramount importance for 35 U.S.C. § 273. For the statue to be used as a valid defense by a company that maintains an invention in secret requires that "commercial use occurred at least 1 year before the earlier of either – (A) the effective filing date of the claimed invention; or (B) the date on which the claimed invention was disclosed to the public . . . ." *Id*. This portion of the statute defines time windows during which another entity, such as a competitor or non-practicing entity, can file a patent application on the secret invention and preclude prior user rights from being used as a valid defense to patent infringement.

Specifically, for section (A), a time window of one year after commercial use of the secret invention exists during which if the competitor files for patent protection on the same concept, the inventor and his company cannot use 35 U.S.C. 273 as a defense. For section (B), an applicant has a one year grace period to file a patent application after a public disclosure. The takeaway from sections (A) and (B) is that a window of between one and two years exists during which the company is at risk for losing the right to assert prior user rights if another entity files for patent protection on the same invention. This may be a risk the company is unwilling to take, in which case patent protection may be the be better option.

While significant cost savings can be realized by using trade secret protection if another entity never obtains a patent on the invention, the cost savings can be expected to evaporate – and then some – if the company is forced to rely on prior user rights as a defense to patent infringement. The company will bear the burden of proving by clear and convincing evidence that it has been secretly commercially using the invention in connection with an internal commercial use prior to the time period established by 35 U.S.C. 273(2). Considering that patent infringement could be asserted many years after the company began secret commercial use, the company's record keeping about the secret commercial use prior to the statutory time period will largely dictate the company's likelihood of successfully asserting prior user rights as a defense. Over time, the inventor, company's counsel, and other personnel involved in the secret commercial use being implemented can be expected to leave the company, have their memories fade, and possibly be

difficult to locate. Therefore, a strong evidentiary record should be created when the secret commercial use begins, not in response to a later assertion of patent infringement.

If a company elects to maintain a commercial process as a trade secret, an extensive evidentiary record should be established of the commercialization of the secret process and the secret process itself. Records could include sworn declarations from the inventor and other employees detailing when the process was developed and began being implemented in secret in the US, dated manufacturing schematics, and dated procedures proving internal use of the secret process. Creating such records may be time consuming and ultimately unnecessary if patent infringement is never asserted against the company. However, patent infringement being asserted in the absence of such evidence could be disastrous to the company's ability to set forth a defense. If infringement is found, even more damaging than monetary damages may be the prohibition of practicing the patented process. If a competitor patent subsequently issues covering the secret process, it may be prudent to obtain a prior user rights opinion of counsel. Such an opinion could help support a prior user rights defense if litigation arises.

Further emphasizing the need for a strong written record establishing the use of the secret commercial process, the burden of proof for establishing prior user rights as a valid defense to patent infringement is "clear and convincing" evidence. Clear and convincing proof requires that evidence be "highly and substantially more likely to be true than untrue . . . ."[2] Typically, in civil litigation, the burden of proof is "preponderance of the evidence." By 35 U.S.C. § 273 specifically requiring clear and convincing evidence, establishing prior user rights as a valid defense to patent infringement will require a substantial evidentiary record established by the company.

Trade secret law should be considered by a company's counsel as a possible way to protect a newly developed idea that is to be implemented internally. Trade secrets have the advantage of cost savings – as long as no other party later successfully patents the same invention. Trade secret protection has the disadvantage of a one to two year time window during which another entity could apply for and obtain a patent on the same invention that could be asserted against the company without prior user rights being available as a defense. If the entity does obtain a valid patent after of the time windows prescribed in 35 USC 273(2), the company could rely on prior user rights as a defense to patent infringement. But, in order to increase the company's likelihood of being able to meet the burden of establishing a successful prior user rights defense, the company should proactively establish an extensive record of the use of the secret commercial process detailing a timeline of its implementation in the United States.

[2] *Colorado v. New Mexico*, 467 U.S. 310 (1984)