Trade secrets and prior user rights

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Prior user rights are critical in trade secrets law.

The invocation of a "prior user right" addresses the circumstances in which two parties independently invent the same invention. The first inventor may protect the invention as a trade secret while the second party may file and obtain a patent.

The best way to understand the intersection of two independent and identical inventions is to consider the following hypothetical statement of facts:

(1) A first inventor discovers a secret process for making widgets.

(2) One year later, a second inventor independently discovers the identical secret process, files a patent application, and the patent issues.

(3) The first inventor does not apply for a patent.

(4) The second inventor sues the first inventor for patent infringement.

With the enactment of the AIA in 2011, Congress expanded the prior user rights defense to all patented technologies including first inventor-trade secret users and second inventor-patentees.

For several decades, scholars and policy makers debated three approaches to address the first inventor-trade secret user as against the second inventor-patentee:

- The "infringement" rule: The second inventor's patent is deemed valid and used to enjoin the first inventor's use.
- The "invalidation" rule: The first inventor's use invalidates the second inventor's patent and competition for the invention is unfettered.
- The "prior user rights" rule: The second inventor's patent is deemed valid, but the first inventor is exempt from liability for patent infringement.

As we will see, the winner became prior user rights based upon a decision in the U.S. Court of Appeals for the Federal Circuit and subsequent congressional action.

In 1999, Congress passed the prior user rights defense, codified as 35 U.S.C. § 273. This was a legislative reaction to the Federal Circuit's decision in *State Street Bank & Trust Co. v. Signature Financial Group Inc.*, 149 F.3d 1368 (Fed. Cir. 1998).

In *State Street*, the Federal Circuit ruled that business methods are patentable subject matter. In doing so, the Federal Circuit created uncertainty for U.S. businesses as to whether they might now be liable for patent infringement for continued use of business methods. In response to these concerns expressed by the business community, Congress enacted a defense to business method patents.

An accused infringer could now absolve itself of liability for patent infringement if it could prove that it had been using the patented business method at least one year before the filing of the patent. However, the prior user rights defense was limited to business methods and was restricted to the entity or individual accused of infringement.

On Sept. 16, 2011, President Obama signed into law the America Invents Act ("AIA") that impacted 71 existing sections of the U.S. patent statute and changed the United States from a first-to-invent ("FTI") system to a first-inventor-to-file ("FITF") system.

With the enactment of the AIA in 2011, Congress *expanded* the prior user rights defense to *all* patented technologies including first inventor-trade secret users and second inventor-patentees. This is a godsend in trade secret law.

Before enactment of the AIA, the first inventor-trade secret user faced liability for patent infringement if the inventor elected to protect the invention as a trade secret. Now the AIA provides an absolute defense to a patent infringement claim if the trade secret owner can establish by clear and convincing evidence that the invention is a trade secret that has been in commercial use for at least one year prior to the patent's effective filing date (35 U.S.C. § 273(b)).

The prior user rights defense requires proof of the trade secret invention by clear and convincing evidence. There must be an identification of the trade secret and the reasonable measures taken to protect the trade secret invention. To adequately allege the existence of a trade secret, the trade secret inventor must describe the trade secret with sufficient particularity to separate it from matters of general knowledge in the trade or of a special knowledge of those persons skilled in the trade.

In addition, there should also be an examination of the six common law factors derived from Section 757 of the Restatement (First) of Torts to adjudicate whether a specific piece of information qualifies as a statutory trade secret.

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The six factors are:

Factor 1: The extent to which information is known outside the company (the more extensively the information is known outside the company, the less likely that it is a protectable trade secret).

Factor 2: The extent to which the information is known by employees and others involved in the company (the greater the number of employees who know the information, the less likely that it is a protectable trade secret).

Factor 3: The extent of measures taken by the company to guard the secrecy of the information (the greater the security measures, the more likely that it is a protectable trade secret).

Factor 4: The value of the information to the company and competitors (the greater the value of the information to the company and its competitors, the more likely that it is a protectable trade secret).

Factor 5: The amount of time, effort and money expended by the company in developing the information (the more time, effort and money expended in developing the information, the more effort and money expended in developing the information, the more likely that it is a protectable trade secret).

Factor 6: The ease or difficulty with which the information could be properly acquired or duplicated by others (the easier it is to duplicate the information, the less likely that it is a protectable trade secret). likely that it is a protectable trade secret).

To prevail with a prior user rights defense, the trade secret inventor must prove a commercial use that produced a useful end product in good faith. Commercial use cannot be a sham. While it can be partially or entirely internal commercial use it must produce an end result that is useful. The prior commercial activity must have occurred in the United States.

The prior user rights defense cannot be used where the trade secret inventor has abandoned the use.

If the prior user defense is asserted without a reasonable basis and the defendant is later found to infringe the plaintiff's patent, attorney's fees can be awarded to the plaintiff. The prior user rights defense only operates against infringement and does not affect invalidity.

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