



Trade Secrets Alert

Recent developments in trade secrets law

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Trade secret assets: prior user rights expanded under the America Invents Act

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On September 8, 2011, the Senate approved the House version of the Leahy-Smith America Invents Act (H.R. 1249). President Obama is expected to sign the bill into law on September 16, 2011. This historic patent reform legislation impacts 71 existing sections in the U.S. patent statute. At the most fundamental level, the United States will change from a first-to-invent (FTI) system to a first-inventor-to-file (FITF) system. There are many strategic issues to be considered by the intellectual property bar.

However, the focus should not be just on patents. The America Invents Act also recognizes the importance of protecting U.S. trade secret assets in the new world economy. This is reflected in the extension of prior user rights to all patents with amendments to 35 U.S.C. Section 273.

Prior user rights protect trade secret owners against patent infringement lawsuits. Take a simple example. Company A invents “X” but decides for economic or strategic reasons not to seek patent protection for “X” and instead elects to protect the invention as a trade secret. However, independently, Company B invents “X” but Company B elects to file and prosecute a patent application resulting in a patent for “X.” Under prior law, except for certain “method” patents, Company B could sue Company A for patent infringement but Company A could not allege the “prior user” (or “earlier inventor”) defense.

The America Invents Act now provides trade secret owners and other alleged infringers with the “prior user defense” against patent infringement claims for all inventions if the trade secret owner or other accused infringer can demonstrate internal commercial use (or other commercial uses) of the subject matter at issue in the patent infringement claim at least one year prior to the effective filing date of the claimed invention.

Trade secrets are important intellectual property assets in the New Economy. In the coming months, the Nixon Peabody trade secrets team will be addressing how to conduct trade secret audits and how to set up effective trade secret protection programs so that clients, large and small, can benefit from the expansion of prior user rights under the new America Invents Act and can take advantage of the strong protections afforded under trade secrets law.

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