
35 U.S.C. § 273: “First Inventor Defense”

By

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Introduction

The American Inventors Protection Act of 1999 (the “Act”) was signed into law by President Clinton last year.¹ Certain provisions of the Act introduce significant changes to the manner in which patentable intellectual property rights, especially in the area of business methods, may be protected and enforced. Subtitle C of the Act, codified as 35 U.S.C. § 273 (the “Statute”), provides a “first inventor” with a statutory defense to an action for infringement of a patent claiming a method of doing or conducting business. Provided below are comments on how this newly introduced defense may affect the rights of an inventor or any person who conducts or intends to conduct business on the Internet.

Patentability of Methods of Doing Business

Until fairly recently, it was unclear whether a method of doing business was deemed to be legally deserving of the protection afforded under the patent laws.² However, this arcane exception was struck down by the Federal Circuit Court of Appeals in *State Street v. Signature*,³ decided on July 23, 1998, wherein the court held that business methods should be subject to the same legal protections afforded any other patentable process or method. This decision prompted the filing of scores of business method patent applications, specifically in relation to methods of doing business on the Internet. Some of the granted patents in this area, such as the 1-click patent to Amazon.com,⁴ include broad functional language that encompasses the activities of

¹ On November 29, 1999, the President signed the American Inventor Protection Act of 1999. The text of the Act is contained in Title IV of S. 1948, the Intellectual Property and Communications Omnibus Reform Act of 1999. The Act was signed as part of the conference report (H. Rep. 106-479) on H.R. 3194, Consolidated Appropriations Act, Fiscal Year 2000. Subtitle C of the Act, codified as 35 U.S.C. § 273 (the “Statute”), takes effect on the date of enactment, but does not apply to any action for infringement that is pending on such date of enactment or with respect to any subject matter for which an adjudication of infringement, including a consent judgment, has been made before such date of enactment.

² Traditionally, the laws of nature, mathematical algorithms and methods of doing business were held to be non-statutory subject matter under the patent laws. See *Parker v. Flook*, 437 U.S. 584 (1978). Despite the fact that the patent office in its 1996 published guidelines hinted that methods of doing business are patentable, there were no clear judicial opinions on the specific topic until *State Street v. Signature*, 47 USPQ2d 1596 (1998). See MPEP § 2106, IV.B.2 (e): Manipulation of Abstract Ideas (1996).

³ 47 USPQ2d 1596 (1998).

⁴ A copy of the patent can be obtained from the United States Patent Office web page (www.pto.gov) by referencing patent number 5,960,411, entitled “METHOD AND SYSTEM FOR PLACING A PURCHASE ORDER VIA A COMMUNICATIONS NETWORK.”

many competitors in the market.⁵ These patents can be potentially enforced against competitors who have been steadily but secretly using the claimed methods in their business for many years.⁶

The First Inventor Defense

According to the legislative history of the Statute, the “First Inventor Defense” was proposed specifically to offset the above-described adverse ramifications of the *State Street* decision.⁷ The Statute provides for a new defense to an action for infringement of a patent granted for a business method. This defense is available to a third party who has independently conceived and developed the subject matter of a business method and has actually reduced that subject matter to practice more than one year before the effective filing date of the patent application claiming that method.⁸

Additionally, in order to assert a defense against infringement the independent third party should have “commercially used” the patented method any time before the effective filing date of the application. For example, to establish a successful defense against a method patent application that is filed on January 1, 2000, a third party needs to show that he conceived and implemented the method prior to January 1, 1999, and that he commercially used the method some time before January 1, 2000. In addition, the affirmative defense against infringement is also available to customers or clients of the entity asserting a defense under the Statute, in the same manner that sale to a third party exhausts a patentee’s claim of infringement against the patentee’s customers or clients.

Due to the fact that obtaining a patent for a business method was not a clear and viable option prior to the *State Street* decision, most businesses with novel and unique business models treated their special method of doing business with strict confidentiality as their trade secrets. As such, these businesses did not pursue a patent for their business methods. The Statute has been drafted to protect long-standing businesses that have failed to pursue a patent for their

⁵ Recently, AMAZON.COM and PRICELINE.COM, pioneers in Internet business, sued industry giants Barnes & Noble and Microsoft, respectively, for infringement of their patents. AMAZON.COM, so far, has been able to successfully enforce its intellectual property rights for the 1-click patent by obtaining a temporary restraining order (TRO) against Barnes & Noble. The outcome of some of the current controversial lawsuits filed to seek the enforcement of patents claiming business methods is a subject matter of great interest. For additional examples of issued patents for methods of doing business on the Internet, refer to the following patents: 5,794,210 (Concept of paying consumers to view ads); 5,794,207 (Buyer-priced auctions); 5,790,793 (Internet push technology); 5,724,424 (Secure on-line payment); 5,715,314 (Electronic shopping carts).

⁶ An original inventor may apply for a patent on a subject matter that has been previously developed by another but has not been in public use. Thus, an inventor may file for a patent on an invention even if another person has previously developed and used the subject matter of the invention in a non-public manner (e.g., the invention was abandoned, suppressed or concealed). See 35 U.S.C. § 102(g).

⁷ “The first inventor defense will provide the financial services industry with important, needed protections in the face of the uncertainty presented by the Federal Circuit’s decision in the *State Street* case.” See 145 CONG. REC. H3194.

⁸ Typically, actual reduction to practice means developing an embodiment of the invention that includes all the elements of the invention and that works properly. Evidence demonstrating substantial utility for any purpose is enough to show reduction to practice. See, *Shire v. Richmond*, 216 USPQ 1042 (1983).

business model, due to uncertainties in the patent laws, against newcomers who may file (or may have already filed) a patent application for the same method.⁹

Despite the noble intent of the drafters of the Statute, however, the Statute is vague and overbroad in its reach. The Statute is drafted vaguely with respect to the meaning of a “business method.” The Statute provides that the First Inventor Defense can be used against a patent granted for “a method of doing business or conducting business,”¹⁰ however, there is no indication as to which activities constitute business activities. According to the *American Heritage Dictionary of the English Language*, a business activity involves commercial, industrial or professional dealings. Many currently developed web-sites provide free information or services, or implement methods that are independent from any commercial, industrial or professional dealings. Can developers of such models claim protection under the Statute?

Further, many patent applications written for Internet or communication-related software include method claims directed to computerized processes that do not directly involve commercial, industrial or professional dealings. For example, a software patent including a claim for a method of broadcasting video streams over the Internet can be directed to the technological aspects of the invention as well as its commercial method of use. Does the Statute obliterate the right of patentees of such technological inventions to bring an infringement suit against a competitor who commercially used the technological subject matter of the patented invention before the patent was filed?

As it is demonstrated by the above examples, the subject matter of a method claim can be non-commercial--purely directed to a technological innovation rather than a method of doing business--even though the invention can be used for commercial purposes. Often, patent applications are drafted to cover both a new technology and its commercial method of use. It is not clear how the Statute is applied to inventions of the sort. Furthermore, there are no guidelines on what constitutes commercial use. Thus, it is unclear which methods or activities fall within the purview of the Statute.¹¹ If the Statute is construed strictly to be applicable only to methods of conducting commercial dealings, then to avoid the invocation of the First Inventor Defense, the inventors and their respective assignees will be best served if the patent applications are directed to the technological aspects of the invention, instead of its commercial aspects.

The Statute is also overly broad. On its face, the Statute provides a first inventor of a commercially used business method with a defense against an infringement suit, “whether or not the subject matter of the invention is or has been accessible or otherwise known to the public.”¹² Accordingly, subject to certain time constraints, a first inventor is able to use and conceal a

⁹ Financial services such as banking services were of special concern during the congressional hearing over the First Inventor Defense. See 145 CONG. REC. H3194.

¹⁰ 35 U.S.C. § 273(a)(3).

¹¹ Non-profit organizations that develop methods for which the public is an intended beneficiary are within the scope of protection, even if their actions do not constitute “commercial activity” per se. 35 U.S.C. § 273(a)(2). However, many web-sites are developed by individuals who do not have the time or sophistication to form non-profit legal entities.

¹² 35 U.S.C. § 273(a)(1).

business method and still proclaim protection under the Statute as a defense.¹³ In light of the fact that patent laws have been implemented to promote the progress of technology and science by encouraging an inventor to share his invention with society, rather than keeping it secret, the Statute as drafted is inconsistent with the spirit of the United States Constitution.¹⁴

The Statute justly preserves the rights of independent inventors who have, in the past, developed and used a method of doing business when business methods were not patentable.¹⁵ Now that business methods are patentable, however, it is unjustified to allow a third party who develops but conceals a business method from the public to pose a defense against an infringement suit brought by a patentee who has gone through the trouble of obtaining a patent for the invention.¹⁶ Since the uncertainty about the patentability of business methods has been settled, all newly developed ideas whether directed to business methods or other fields of art, should be equally treated.

After the *State Street* decision, there remains no cogent argument for providing new developers of business models with preferential treatment. Unlike copyright law, wherein all original and independent authors are entitled to copyright protection, it has been long held that a patent is only granted to the person who conceives the invention and who demonstrates “due diligence” in filing a patent application on the subject matter of the invention.¹⁷ The Statute, in essence, does away with the due diligence requirement by affording an inventor with a defense even if he decides to delay or altogether forgo the filing of a patent application for a business model.

The Statute, depending on how it is construed, can have a chilling effect on the introduction of new ideas and methods of doing business into the public domain. The Statute effectively immunizes a party who conceals his invention against an infringement suit, no matter how long the method has been suppressed as a trade secret. For example, under the Statute, a first inventor can secretly use and develop a useful method of doing business indefinitely (e.g.,

¹³ The Statute requires the defending party to prove that the invention was conceived and reduced to practice a year before a patent application for the invention was filed. The defending party also needs to prove that the business method was in commercial use any time before the filing date of the patent application.

¹⁴ “The Congress shall have the power . . . to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.” United States Constitution, Article 1, Section 8, Clause 8. A patentee is granted a monopoly over the claimed invention for a period of 20 years, from the earliest referenced date of filing, during which time he may prohibit others from making, using or selling the claimed invention. 35 U.S.C. 271(a). In exchange for this limited monopoly, he agrees for a detailed description of his invention (as included in the patent application) to be publicly published after the grant of the patent, so that others can benefit from it.

¹⁵ Arguably, prior to the *State Street* decision, it was unclear if an application for a method of doing business would be granted if filed. Thus, many potential applications were not filed.

¹⁶ The Statute is essentially a compromise in settling the uncertainty in the patent laws during the period of time prior to the *State Street* decision, when business method invention were not clearly held to be patentable subject matter. However, a fair balance would have been reached if the Statute was only retroactively applied. After all, there is no reason to safeguard future inventors of business methods now that they have an equal opportunity to file for a patent application.

¹⁷ The lynchpin of the patent law is disclosure of information to the public. See *Peeler v. Miller*, 535 F.2d 647, 190 USPQ 117 (Fed. Cir. 1976). For example, in an interference proceeding (i.e., a proceeding in which the first inventor of an invention is determined), the policy has been to favor the party that most expeditiously starts his invention on the path to public disclosure by filing a patent application.

beyond the 20-year protection period afforded to a United States Patent), even after that method has been patented by a second independent inventor.

Application of the Statute, in effect, provides a disincentive against filing a patent on the subject matter of the business model by either the first or the second inventor. The first inventor has no incentive to file, because he is protected against any lawsuits under the Statute while he continues to use and safeguard his trade secret indefinitely. The second inventor does not have a great incentive to pursue a patent application either, because after the tedious and expensive process of filing and obtaining a patent he cannot use his patent against the first inventor who is probably one of his fiercest competitors in the market.

On the other hand, due to the statutory time constraints provided in 35 U.S.C. § 273, it is to the best interest of an inventor of a business method to file a patent for such novel method of doing business, before anyone else can claim that he has been commercially using that business method. Additionally, the inventors who have not implemented their business methods into a commercial model are urged to immediately develop and put the business method into commercial use. The earliest filing of a patent application, along with the earliest commercial implementation and use of the method, will provide an inventor with both defensive and offensive measures against his competitors.

Filing a patent application as an offensive method can provide the inventor with the possibility of excluding others in the business from using or selling the invention in the market or can result in licensing of the invention in exchange for royalties. The earliest commercial use of the method, on the other hand, provides the inventor with a defense under the Statute against a potential competitor who already may have filed a patent application claiming the business method.

Conclusion

Until further guidelines for interpretation of the Statute are available, it remains important for an inventor to keep accurate records with respect to the earliest dates of conception, development and commercial use of a business method. The inventors should institute a plan for the earliest implementation of the novel method and for filing a patent application to protect that method, whether or not they have used or intend to use it commercially. Finally, patent practitioners should draft business method applications that are directed towards the technological aspects of the invention rather than its commercial aspects, as it is currently unclear which method or activity falls within the purview of the Statute as “a method of doing business.”

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