A New Defense to Patent Infringement for Methods of Doing or Conducting Business

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A common complaint against the patent system by electronic commerce entrepreneurs is that many "common" and "well known" methods of doing business are later patented. This is especially frustrating when the patented method has been used by the entrepreneur for years before the patent issued.

The recently enacted American Inventors Protection Act (the "Act") has added a new defense to patent infringement to address this situation. The new defense can be used as a shield against some patent claims that were used by the accused infringer at least one year before the effective filing date of the issued patent.

The Act defines this new defense as the first inventor defense. The first inventor defense protects users who would otherwise infringe certain method claims. The Act states that it is a defense to infringement of a method claim (defined in the Act as a "method of doing or conducting business") if a person, acting in good faith, independently and actually reduces the claimed subject matter to practice at least one year before the effective filing date of the patent and the subject matter was commercially used before the effective filing date.

There are a number of requirements that a person must meet in order to successfully assert the first inventor defense. One requirement is that the person must have actually reduced to practice the claimed subject matter at least one year before the effective filing date of the U.S. patent. The "effective" filing date of the patent can be a claimed priority date from an earlier filed U.S. or international application. Another requirement is that the person must have commercially used the claimed subject matter before the effective filing date of the patent. The commercial use requirement can be satisfied in a number of ways including a sale of a useful end result of the method or by an internal commercial use of the method. For example, a method for tracking customer preferences internally on an electronic commerce site will likely satisfy the commercial use requirement.

However, there are a number of limitations to this defense. First, the defense cannot be asserted if the subject matter reduced to practice by the defendant was derived from the patentee or persons in privity with the patentee. Thus, if an employee of the patentee changes jobs and uses information derived from the patentee for the benefit of accused infringer, the accused infringer may be precluded from successfully asserting the defense if the accused infringer derived the method from the patentee. In addition, the defense is not a general license in that the defense extends only to the specific claims to which the defense can be asserted, i.e., each claim is reviewed separately. Also, the defense is personal in that the defense is limited to the person (including companies) who perform the acts necessary to establish the defense, i.e., reduction to practice and commercial use. That is, the Act significantly restricts the circumstances in which the defense may be transferred to another person or company.

In addition to the above requirements and restrictions, there are a number of ambiguities about this section of the Act. Most notable of these ambiguities is what is a "method of doing or conducting business?" It is unclear whether this applies to non-method claims that are part of a programmed machine as in *State Street Bank and Trust Co. v. Signature Financial Group*, 149 F.3d 1368, 47 USPQ2d 1596 (Fed. Cir. 1998, *cert. denied*, 119 S.Ct. 851 (U.S. 1999). The congressional record supports both a narrow interpretation (the defense applies only to method claims) and a broad interpretation (the defense may apply to some non-method claims). Supporters of the broad interpretation will look at the portion of the congressional record that states that "whether an invention is a method is to be determined based upon its underlying nature and not on the technicality of the form of the claims in the patent." Such a broad interpretation would provide a defense to an asserted business method claim that is drafted in a non-method claim form, such as the claims in *State Street*, but is inconsistent with the text of the Act which limits the defense to asserted method claims.

Electronic commerce businesses that use a variety of internal business methods should closely follow how the phrase "methods of doing and conducting business" is interpreted by the courts. A broad interpretation will provide E-commerce business with significant protection by providing a strong defense against patent infringement for those

"methods" developed in-house. A narrow interpretation will provide little protection since most patents include both apparatus and method claims and if the first inventor defense is limited to only method claims the businesses may still be liable for non-method claims asserted against them.

This defense is available for all patents, regardless of their filing date, except for those patents that were involved in a patent infringement action as of November 29, 1999 or for any subject matter for which an adjudication of infringement has been made as of November 29, 1999.

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