

Seyfarth PTAB Blog



A legal look at Patent Trial and Appeal Board decisions and trends

The Effect of Covenants-Not-to-Sue on Covered Business Method Review Standing

By Christopher A. Baxter

The America Invents Act includes specific proceedings for reviewing the patentability of covered business method patents (“CBM review”), which are patents that claim a method, apparatus, or operation used in the practice, administration, or management of a financial product or service. 37 C.F.R. § 42.301(a). According to 37 C.F.R. § 42.302(a), CBM review may not be instituted “unless the petitioner, the petitioner’s real party-in-interest, or a privy of the petitioner has been sued for infringement of the patent or has been charged with infringement under the patent. 37 C.F.R. § 42.302(a). Standing to institute a CBM review proceeding requires “a real and substantial controversy regarding infringement. . . such that the petitioner would have standing to bring a declaratory judgment action in Federal court.” *Id.*

In November 2014, Carfax, Inc. (“Carfax”) sued Red Mountain Technologies, LLC (“Red Mountain”) in Federal court seeking, among other things, a declaratory judgment of non-infringement of U.S. Patent No. 8,731,997 (“the ‘997 patent”), titled “System and Method for Analyzing and Using Vehicle History Data.” According to Carfax, Red Mountain threatened Progressive Insurance, Inc. (“Progressive”), a client or potential client of Carfax, of infringing the ‘977 patent. *Carfax, Inc. v. Red Mountain Technologies, LLC*, CBM2015-00115, at *2 (October 21, 2015). Subsequent to being sued, Red Mountain extended covenants-not-to-sue (with respect to the ‘977 patent) to Progressive and Carfax. *Id.* at *3.

Thereafter, Carfax filed a petition with the USPTO to institute CBM review of the ‘977 patent, contending the ‘977 patent is unpatentable under 35 U.S.C. § 101. *Id.* at *2, * 5. Red Mountain filed a preliminary response, resulting in a dispute regarding Carfax’s standing to petition for CBM review of the ‘977 patent. *Id.* In essence, the dispute centered around the “charged with infringement” requirement and whether the covenants-not-to-sue extended by Red Mountain to Progressive and Carfax eliminated the “real and substantial controversy” requirement to institute CBM review.

The covenant extended to Carfax states:

Red Mountain, including any of its successors, predecessors, affiliates, subsidiaries, assigns, officers, directors and agents, hereby unconditionally and irrevocably promises and covenants that it will never assert the ‘977 Patent against Carfax or any of Carfax’s customers, successors, predecessors, affiliates, subsidiaries, assigns, officers, and directors. This covenant not to sue shall forever serve as a bar to any attempt by Red Mountain (or anyone else) to assert the ‘977 Patent against Carfax or any Carfax customer.

Id. at *6. Based on the aforementioned language and the fact that the covenants-not-to-sue were executed prior to Carfax filing its CBM review petition, the PTAB found there was no “real and substantial controversy” when the petition was filed and denied the petition. *Id.* at *6-7.

Takeaway

Covenants-not-to-sue are useful to remove standing from a potential CBM review petitioner. This PTAB decision illustrates the temporal nature of the “real and substantial controversy” standing requirement of CBM review institution. This decision further illustrates how a covenant-not-to-sue only needs to be executed prior to a petition for CBM review being filed. The fact that a patent owner may be sued for declaratory judgment of the patent prior to execution of the covenant-not-to-sue is irrelevant.

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