Trials@uspto.gov
571-272-7822

Paper No. 12
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UNITED STATES PATENT AND TRADEMARK OFFICE

BEFORE THE PATENT TRIAL AND APPEAL BOARD

MASTERCARD INTERNATIONAL INC.,
Petitioner,

v.

ALEXSAM, INC.,
Patent Owner.

Case CBM2017-00042
Patent 6,000,608

Before KALYAN K. DESHPANDE, FRANCES L. IPPOLITO, and CHRISTOPHER G. PAULRAJ, *Administrative Patent Judges.*

PAULRAJ, *Administrative Patent Judge.*

DECISION
Denying Institution of Covered Business Method Patent Review
37 C.F.R. § 42.208

I. INTRODUCTION

MasterCard International Inc. ("Petitioner" or "MasterCard") filed a Petition (Paper 1, "Pet."), requesting institution of a covered business method patent review ("CBM review") of claims 3–18, 20–22, and 25–34 of U.S. Patent No. 6,000,608 (Ex. 1001, "the '608 patent"). Alexsam, Inc. ("Patent Owner" or "Alexsam") timely filed a Preliminary Response (Paper 8, "Prelim. Resp."). We authorized Petitioner to file a Reply to Patent Owner's Preliminary Response in order to address Patent Owner's argument that Petitioner is contractually estopped from contesting the patentability of the '608 patent in this forum due to a venue provision in a prior License Agreement between the parties (Paper 9, "Reply"). Additionally, pursuant to our request, the parties filed supplemental briefs addressing the effect of a covenant not to sue provision in the parties' License Agreement on Petitioner's standing under 37 C.F.R. § 42.302(a) (Paper 10, "Pet. Supp. Br."; Paper 11, "PO Supp. Br.").

We have statutory authority under AIA § 18(a)(1) and 35 U.S.C. § 324(a). For the reasons set forth herein, we determine that Petitioner lacks standing to bring this CBM review. Accordingly, we deny the Petition.

II. DISCUSSION

A. Background

In May 2005, Petitioner and Patent Owner executed a License Agreement covering the '608 patent, U.S. Patent No. 6,189,787 B1 ("the '787 patent"),[1] and other related patents (collectively, "Licensed Patents").

[1] The '787 patent has been challenged by Petitioner in CBM2017-00041. We deny institution of CBM review in that proceeding for the same reasons set forth in this Decision.

Ex. 2001 ("License Agreement" or "Agreement"). The License Agreement provides:

> 2.1 License. In consideration of the respective covenants and promises contained herein, including the payments to be paid to Alexsam under Section 4 below, Alexsam hereby grants to MasterCard a worldwide, nonexclusive, non-transferable (except to the extent otherwise expressly provided for herein) license under the Licensed Patents to process and enable others to process Licensed Transactions.[2]

Ex. 2001, § 2.1. The Agreement also provides Petitioner the right to grant sub-licenses under the Licensed Patents co-extensive in scope with the license grant, and further indicates that "all Licensed Transactions shall be deemed sublicensed under an implied sublicense granted hereunder to all participating parties." *Id.* Additionally, the Agreement includes the following covenant not to sue provision:

> 2.2 Covenant Not to Sue. Alexsam hereby agrees and covenants to not at any time initiate, assert, or bring any claim (in any court, administrative agency, or other tribunal. anywhere in the world) against MasterCard, for any claim or alleged liabilities of any kind and nature, at law, in equity, or otherwise, known and unknown, suspected and unsuspected, disclosed and undisclosed, relating to Licensed Transactions arising or occurring before or during the term of this Agreement.

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[2] The License Agreement defines "Licensed Transaction" to include

> each process of activating or adding value to an account or subaccount which is associated with a transaction that utilizes MasterCard's network or brands wherein data is transmitted between a POI Device and MasterCard's financial network or reversing such process, provided that such process is covered by one of the Licensed Patents.

Ex. 2001, § 1.3.

Id., § 2.2. "In exchange for the rights granted to MasterCard under Section 2," the Agreement provides that Petitioner shall make certain royalty payments and provide periodic accounting reports to Patent Owner. *Id.* § 4.

In *Alexsam, Inc. v. IDT Corp.*, which involved a prior infringement action against third party IDT Corp. ("IDT"), the Federal Circuit upheld the district court's determination that certain transactions performed by IDT were sublicensed under the MasterCard-Alexsam License Agreement, which thereby reduced damages owed to Patent Owner for IDT's alleged infringement. 715 F.3d 1336, 1346 (Fed. Cir. 2013). In particular, the Federal Circuit determined that "[t]he district court correctly found that under the plain terms of this agreement, any activation transaction covered by the patents in suit and taking place over the MasterCard network was automatically 'deemed sublicensed,' without regard to the intent of either Alexsam or MasterCard regarding that particular transaction." *Id.* The Federal Circuit also found that "[b]ecause the license was not conditioned on the royalty payments, the fact that MasterCard refused to pay Alexsam royalties for IDT's SafeNet activations did not retroactively revoke the sublicense under which those transactions took place." *Id.*

Thereafter, in May 2015, Patent Owner sued Petitioner for breach of contract in the U.S. District Court for the Eastern District of New York based on at least the alleged non-payment of royalties due for the IDT transactions deemed sublicensed under the License Agreement. Ex. 1002 ("New York Action"). In its Complaint, Patent Owner alleges that Petitioner "substantially breached material provisions of the License Agreement" by under-reporting the number of "Licensed Transactions" and failing to pay royalties owed for those "Licensed Transactions." *Id.* ¶¶ 23–27. Petitioner

filed counterclaims in the New York Action seeking declaratory judgment of non-infringement and invalidity for the ’787 and ’608 patents. Ex. 2002, ¶¶ 49–94. Patent Owner filed a motion to dismiss those counterclaims under Federal Rule of Civil Procedure 12(b)(6) on the basis that declaratory judgment jurisdiction is lacking and that Patent Owner’s covenant not to sue eliminates any justiciable case or controversy. Ex. 2005, 9–14. In denying Patent Owner’s motion to dismiss, the district court indicated that “[i]t is not apparent at this stage that plaintiff can prove its claims without reference to the scope of its patents, given the ambiguous nature of the provisions in the License Agreement.” Ex. 1004, 1. The district court further held that “whether declaratory relief is appropriate will depend, in part, on how the Court (or a jury) interprets the License Agreement, something the Court cannot do as a matter of law in the context of the current motion.” *Id.* at 2.

B. Analysis

Under § 18(a)(1)(B) of the America Invents Act (AIA), “[a] person may not file a petition for a transitional proceeding with respect to a covered business method patent unless the person or the person’s real party in interest or privy has been *sued for infringement* of the patent or has been *charged with infringement* under that patent.” AIA § 18(a)(1)(B) (emphasis added); *see also* 37 C.F.R. § 42.302(a). Petitioner contends that this standing requirement is satisfied “because Patent Owner sued Petitioner for alleged breach of a patent License Agreement involving the ‘608 Patent.” Pet. 4 (citing Ex. 1002). After considering the parties’ arguments, including those set forth in their supplemental briefs, we determine that Petitioner has not met its burden of demonstrating that it is eligible to bring this CBM

review. *See* 37 C.F.R. § 42.304(a) ("The petitioner must demonstrate . . . that [it] meets the eligibility requirements of § 42.302.").

1. Whether Petitioner Has Been "Sued for Infringement"

We first determine that Petitioner has not been "sued for infringement." It is undisputed that Patent Owner has not brought a claim against Petitioner under the Patent Act. *See* 35 U.S.C. § 281 ("A patentee shall have remedy by civil action for infringement of his patent."). Rather, Patent Owner has sued Petitioner in the New York Action for a state-law based breach of contract claim premised on Petitioner's alleged failure to pay royalties owed under the parties' License Agreement. Ex. 1002.

Even if resolution of the contract issues in the New York Action ultimately requires a determination of whether certain transactions are "covered" by the challenged patent, that possibility does not compel a different result as to whether Petitioner has been "sued for infringement." As recognized by the Federal Circuit, the nature of a contract action does not change to one "arising under" the patent law merely "because the contract is a patent license and the assertedly failed contract obligation is the obligation to notify of patent infringement and share payment for infringement." *See Bonzel v. Pfizer, Inc.*, 439 F.3d 1358, 1363 (Fed. Cir. 2006) ("Indeed, should it come to pass that the court, in deciding whether the contract conditions were met, deems it appropriate to apply the law of patent infringement, that of itself does not change the complaint into one arising under the patent law."); *see also Ballard Med. Prod. v. Wright*, 823 F.2d 527, 530 (Fed. Cir. 1987) ("The scope of a licensed patent may control the scope of a license agreement, but that rule of contract law cannot possibly convert a suit for

breach of contract into one 'arising under' the patent laws as required" for federal question jurisdiction).

We further determine that Petitioner's standing to bring this CBM review cannot be based on the fact that Patent Owner had previously sued third party IDT for infringement of the challenged patent. Although certain IDT transactions were "deemed sublicensed" under the MasterCard License Agreement, Petitioner was not a party in the prior infringement action. *See Alexsam*, 715 F.3d at 1346. Moreover, Petitioner has not asserted that IDT is a real-party-in-interest or privy such that Patent Owner's prior infringement action against IDT would be sufficient to confer Petitioner with standing in this proceeding.

We have also taken into account the Federal Circuit's recent decision in *Return Mail, Inc. v. United States Postal Service*, Appeal No. 2016-1502 (Fed. Cir. Aug. 28, 2017) in reaching our determination. In that decision, the court held that being "sued for infringement" for purposes of CBM review eligibility includes an action brought against a government agency under 28 U.S.C. § 1498(a). *Return Mail*, slip op. at 14–28. As noted by the court, "[§] 1498(a) 'is an eminent domain statute,' wherein the government 'has consented thereunder only to be sued for its taking a patent license,'" and "this provision 'creates its own independent cause of action,' which is 'only parallel and not identical' to an infringement action under the Patent Act." *Id.* at 16–17 (citations omitted). The court further noted that "nothing in the text of § 18(a)(1)(B) indicates an intent to restrict 'infringement' to suits that fall under the Patent Act." *Id.* at 21.

Although we recognize certain parallels between the government's status in a § 1498(a) action and Petitioner's status in the breach of contract

action, we also find significant differences. First, unlike a private party such as Petitioner, the government could not otherwise be sued for patent infringement absent the waiver of sovereign immunity provided under § 1498(a). *Id.* at 16–17. As such, while there are some variances in the available remedies and procedures, a § 1498(a) action against the government effectively acts as a substitute for an infringement action brought under the Patent Act. *Return Mail*, slip op. at 18 (noting that while the word "infringement" is absent from the text of § 1498(a), the legislative history supports an understanding that such claims brought against the government are for "infringement or unauthorized use" of the patented invention). Second, the *Return Mail* court stated that "when the government uses or manufactures a patented invention, it is not presumed to have a *preexisting* license or lawful right to do so." *Id.* at 19 (emphasis added). Here, by contrast, Petitioner does have a preexisting license, which purportedly provides Petitioner with a lawful right to use the patented invention for certain "Licensed Transactions." Ex. 2001 § 2.1. In its breach of contract claim, Patent Owner only seeks to recover royalty payments for those transactions authorized under the License Agreement, which by definition cannot be considered infringing. *See* 35 U.S.C. § 271(a) ("Except as otherwise provided in this title, whoever *without authority* makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent." (emphasis added)).

On these bases, we consider *Return Mail* to be inapplicable to the particular facts of the instant proceeding, and do not interpret "sued for

infringement" under § 18(a)(1)(B) to be so broad as to encompass the breach of contract claim brought against Petitioner in the New York Action.

2. Whether Petitioner Has Been "Charged with Infringement"

We next turn to whether Petitioner has been "charged with infringement."

a. Legal Standard

Our rules define "charged with infringement" as "a real and substantial controversy regarding infringement of a covered business method patent exists such that the petitioner would have standing to bring a declaratory judgment action in Federal court." 37 C.F.R. § 42.302(a). Thus, although "the Article III standing requirement for a 'case or controversy' does not apply to matters before" the PTO, the foregoing regulation has made it "clear that it is the ability to seek relief in *Federal court* that is important to the standing inquiry." *Return Mail*, slip op. at 7–8. Accordingly, in our analysis of whether Petitioner has standing on the basis of being "charged with infringement," we have considered case law addressing when a party might have Article III standing to bring a declaratory judgment action.

To start, in *MedImmune, Inc. v. Genentech, Inc.*, the Supreme Court held that, where a licensor has demanded royalties due under a patent license, a licensee "was not required, insofar as Article III is concerned, to break or terminate [the] license agreement before seeking a declaratory judgment in federal court that the underlying patent is invalid, unenforceable, or not infringed." 549 U.S. 118, 137 (2007). In the facts of that case, the patent holder/licensor (Genentech) delivered a letter expressing its belief that a certain drug product sold by the licensee (MedImmune) was

covered by its patent and its expectation that the licensee would pay royalties for that product. *Id.* at 121. The licensee "considered the letter to be a clear threat to enforce the [asserted] patent, terminate the [parties'] license agreement, and sue for infringement if [the licensee] did not make royalty payments as demanded." *Id.* at 122. Under the circumstances, the Court noted that "[i]f [the licensor] were to prevail in an infringement action, [the licensee] could be ordered to pay treble damages and attorney fees, and could be enjoined from selling [its] product," which "accounted for more than 80 percent of its [sales] revenue." *Id.*

At first blush, it might appear that Petitioner is similarly positioned to assert standing since Patent Owner has demanded royalties allegedly due under the parties' License Agreement. However, the License Agreement additionally includes a "covenant not to sue" provision—which was not at issue in *MedImmune*—and we must consider the effect of that provision in our analysis. Ex. 2001 § 2.2. The Supreme Court and the Federal Circuit have held that a broadly-worded and unequivocal covenant not to sue for infringement may moot a dispute between the parties such that there no longer exists a "case or controversy" under Article III. *See Already, LLC v. Nike, Inc.*, 568 U.S. 85, 93–95 (2013); *Organic Seed Growers and Trade Ass'n v. Monsanto Co.*, 718 F.3d 1350, 1357 (Fed. Cir. 2013). Nonetheless, a covenant not to sue will not moot the dispute if it is conditional in nature and/or leaves open the possibility of an infringement suit in the future based on ongoing activities. *See ArcelorMittal v. AK Steel Corp.*, 856 F.3d 1365, 1370–72 (Fed. Cir. 2017) (finding that conditional delivery of a covenant not to sue did not moot dispute); *Revolution Eyewear, Inc. v. Aspex Eyewear, Inc.*, 556 F.3d 1294, 1298–99 (Fed. Cir. 2009) (case or controversy

continued to exist where covenant did not extend to future sales of same product as previously sold). "Whether a covenant not to sue will divest the trial court of jurisdiction depends on what is covered by the covenant." *Revolution Eyewear*, 556 F.3d at 1297.

b. The Parties' Supplemental Submissions

We, therefore, asked the parties to provide further briefing on the effect of the covenant not to sue provision on Petitioner's standing under 37 C.F.R. § 42.302(a). In particular, we asked the parties to address a) what effect, if any, the covenant not to sue has on Petitioner's standing; b) whether the covenant is "unconditional and irrevocable" (*see Already*, 568 U.S. at 93); and c) whether the covenant is void as a result of Petitioner's alleged breach of the License Agreement.

In its Supplemental Brief, Petitioner contends that the federal district court in the New York Action had already considered the parties' License Agreement, including the covenant not to sue, and determined that Petitioner's counterclaims in that proceeding met the requirements for declaratory relief under the Declaratory Judgment Act. Pet. Supp. Br. 2–3. In contrast to the covenant not to sue at issue in the *Already* case, Petitioner contends that the covenant included with the License Agreement is not unconditional insofar as it "is conditioned upon, among other things, payment of royalties for Licensed Transactions." *Id.* at 3–4. Petitioner further contends that the covenant is void as a result of Patent Owner suing Petitioner in the New York Action. *Id.* at 4–5. According to Petitioner, by proceeding with the breach of contract claim "relating to Licensed Transactions" in direct violation of the covenant not to sue, Patent Owner has already revoked the covenant. *Id.* at 5.

Patent Owner, in its Supplemental Response, asserts that the covenant not to sue "is further evidence that Patent Owner cannot sue Petitioner for infringement, and it is just another reason why Petitioner lacks standing." PO Supp. Br. 1. Patent Owner argues that Petitioner mischaracterizes and misconstrues what the district court actually found in denying the motion to dismiss the declaratory judgment counterclaims. *Id.* Patent Owner argues that "[t]he payment of royalties is Petitioner's obligation under the License Agreement – not a condition of the" covenant. *Id.* at 2. Patent Owner also contends that the covenant "provides no explicit means for its revocation," and "[t]he facts do not support the conclusion that the [covenant] was, or could be, revoked by the filing of Patent Owner's breach of contract claim." *Id.* Patent Owner also asserts that "Petitioner provides no evidence or support for its position that the parties intended the [covenant] to be conditional or revocable." *Id.* at 2–3. Notwithstanding those assertions, Patent Owner also takes the position that whether the covenant not to use is "unconditional and irrevocable" or void is "not at issue." *Id.* at 5.

c. Analysis of Covenant Not to Sue

"[W]e begin our analysis with the terms of the covenant." *Already*, 568 U.S. at 93. Having taken into consideration the parties' submissions, we find that the broad language of the covenant not to sue provision in the License Agreement removes any imminent possibility that Patent Owner could bring an infringement action against Petitioner.

In the covenant, Patent Owner has agreed not to assert "*any* claim" (in any tribunal worldwide) against Petitioner "for *any* claim or alleged liabilities of *any* kind and nature . . . relating to Licensed Transactions arising or occurring before or during the term of this Agreement." Ex. 2001

§ 2.2 (emphasis added); *cf. Already*, 568 U.S. at 93 (breadth of covenant prohibiting trademark holder (Nike) from making "any claim *or* any demand" was sufficient to meet voluntary cessation test). At a minimum, we find this covenant prohibits Patent Owner from bringing a claim of patent infringement for transactions utilizing Petitioner's network or brand that are "covered" by the challenged patent, i.e., "Licensed Transactions," so long as those transactions take place before the Agreement is terminated. Ex. 2001 § 1.3.[3]

Although the language of the covenant does not explicitly indicate it is "unconditional" and "irrevocable" (unlike the covenant at issue in *Already*), we find no support for an interpretation that the assurance made thereunder is conditioned upon the payment of royalties or that it could be revoked as a result of Petitioner's alleged breach of the License Agreement. While the covenant was included as part of a negotiated contract, rather than a unilateral assurance by Patent Owner, nothing in the covenant provision itself is tied to the payment of royalties. Ex. 2001 § 2.2. By contrast, the license provision in the Agreement specifically indicates that a non-exclusive license was granted to Petitioner "[i]n consideration of the respective covenants and promises contained herein, including the payments to be paid to" Patent Owner. *Id.* § 2.1. Moreover, while the "consideration" provision in the Agreement further states that Petitioner shall make the specified royalty payments to Patent Owner "[i]n exchange for the rights granted to MasterCard under Section 2," that provision also does not suggest

[3] We need not, and do not, address the question of whether Patent Owner's breach of contract claim in the New York Action itself violates the covenant not to sue.

that the covenant shall continue to be in effect *only* if Petitioner has made the requisite payments. *Id.* § 4. In other words, the payment of royalties is not a condition precedent for the covenant not to sue.

We also find no basis to conclude that the covenant was, or could be, revoked based on Petitioner's alleged breach and Patent Owner's filing of the breach of contract claim in the New York Action. The covenant prohibits Patent Owner from bringing an infringement claim for Licensed Transactions at "*any* time," which would include now or at any point in the future. Ex. 2001 § 2.2 (emphasis added). The License Agreement does not include any provision allowing the covenant to be revoked such that Patent Owner could sue for infringement for Licensed Transactions that took place before or during the term of the Agreement. To be sure, we recognize that the License Agreement does allow Patent Owner to terminate the Agreement based on Petitioner's breach (provided that certain notice requirements are met), which could open up the possibility of an infringement lawsuit for transactions that arise or occur *after* such termination. *See* Ex. 2001 § 7. However, despite the breach of contract allegation in the New York Action, Patent Owner has not at this point sought to terminate the Agreement, and thus the covenant continues to be in effect. *See* Ex. 1002, 6 (Prayer for Relief). Under the circumstances, we find that "[t]he residual possibility of a future infringement suit based on [] future acts is simply too speculative" to support Petitioner's standing required per AIA § 18(a)(1)(B). *Revolution Eyewear, Inc.*, 556 F.3d at 1298 (alteration in original) (quoting *Super Sack Super Sack Manufacturing Corp. v. Chase Packaging Corp.*, 57 F.3d 1054, 1060 (Fed. Cir. 1995).

Unlike in *MedImmune*, the covenant not to sue provision in the parties' License Agreement removes any "imminent" threat that Patent Owner could sue Petitioner for patent infringement. *Cf. MedImmune*, 549 U.S. at 128. Accordingly, we conclude that Petitioner has not been "charged with infringement."[4]

III. CONCLUSION

Petitioner has not established standing for filing the current Petition for CBM review. In view of this conclusion, we do not address Patent Owner's other arguments to deny institution or the merits of Petitioner's patentability challenges.

IV. ORDER

In consideration of the foregoing, it is hereby:

ORDERED that the Petition is *denied*; and

FURTHER ORDERED that no covered business method patent review is instituted.

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[4] We understand that the district court, in denying Patent Owner's 12(b)(6) motion to dismiss the declaratory judgment counterclaims cited *MedImmune* in its decision. *See* Ex. 1004, 1–2. We do not understand that citation to mean the district court reached the issue we address here. The district court indicated only that it could not interpret the License Agreement "as a matter of law in the context of the current motion" because of possible ambiguity of a term used in it, which it needed to do to determine whether declaratory relief is appropriate. *Id.* at 2. In contrast, in determining whether Petitioner has met the standing requirement to initiate this CBM review, we have interpreted the License Agreement (including the covenant not to sue) as part of our analysis to determine that Petitioner has not been charged with infringement by Patent Owner.

PETITIONER:

Robert C. Scheinfeld
Eliot D. Williams
Christopher R. Patrick
BAKER BOTTS, LLP
robert.scheinfeld@bakerbotts.com
eliot.williams@bakerbotts.com
christopher.patrick@bakerbotts.com

PATENT OWNER:

Stephen R. Risley
RISLEY LLC
steverisley@kentrisley.com