

Forum Selection Clauses Can Doom PTAB Review

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A recent case demonstrates the impact forum selection clauses in patent license agreements can have on the availability of patent challenges in the Patent Trial and Appeal Board. In *Dodocase VR Inc. v. MerchSource LLC*, a magistrate judge ordered a defendant to withdraw its inter partes review and post-grant review petitions from the PTAB.[1] The court held that the forum selection provision in a patent license agreement between plaintiff and defendant precluded the defendant from challenging plaintiff's patents in any forum other than certain California courts. Affirmance of the court's decision would have an important impact on the rights of patent licensees to challenge patentability in the PTAB, and may provide a pathway for patent owners to dispose of PTAB patent challenges.

Background

Plaintiff *Dodocase VR Inc.* and defendant *MerchSource LLC* are parties to a master license agreement, pursuant to which *MerchSource* licensed certain *Dodocase* patents.[2] The agreement includes a "no-challenge" provision: "MerchSource shall not [] attempt to challenge the validity or enforceability of the" *Dodocase* patents.[3] The agreement also includes a "forum selection" provision: "DISPUTES SHALL BE LITIGATED BEFORE THE COURTS IN SAN FRANCISCO COUNTY OR ORANGE COUNTY, CALIFORNIA." [4]

Relations between *Dodocase* and *MerchSource* soured, and *MerchSource* threatened to stop paying certain royalties.[5] Accordingly, on Dec. 13, 2017, *Dodocase* sued *MerchSource*, seeking a declaration of patent validity, and an injunction preventing *MerchSource* from breaching the agreement.[6]

On Jan. 15, 2018, *MerchSource* filed IPR and PGR petitions against the *Dodocase* patents.[7] On Feb. 16, 2018, *Dodocase* moved the district court for a temporary restraining order or preliminary injunction requiring *MerchSource* to withdraw its PTAB petitions.[8] *Dodocase* argued that the "no-challenge" and "forum selection" provisions of the agreement prohibited *MerchSource* from prosecuting the PTAB petitions.[9]



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On March 23, 2018, Magistrate Judge Elizabeth Laporte granted a preliminary injunction ordering MerchSource to contact the PTAB and move for dismissal of its petitions.[10] Applying the standard four-factor test for a preliminary injunction, Judge Laporte considered the plaintiff's likelihood of success on the merits, irreparable harm, a balance of the equities, and whether an injunction is in the public interest.

With respect to likelihood of success on the merits, Judge Laporte rejected Dodocase's argument based on the no-challenge provision, stating, "MerchSource, as a licensee with an economic incentive to challenge the patents once it could not successfully renegotiate the license, cannot be enjoined under principles of equity from mounting these validity challenges by enforcement of the 'no-challenge' clause." [11]

She found, however, that Dodocase had demonstrated a likelihood of success that the forum selection provision prohibited the PTAB challenges.[12] She first considered whether the provision applied to disputes over patent validity.[13] Significantly, the agreement included a further provision that "the laws of the State of California shall govern any dispute arising out of or under this Agreement." [14] Reading this choice-of-law provision together with the forum selection provision, Judge Laporte concluded "that the PTAB proceedings challenging the validity of the licensed patents after Plaintiff sought to enforce the license in this forum fall within the scope of the forum selection clause as they 'aris[e] out of or under' the terms and performance of the contract." [15] Judge Laporte further noted that MerchSource's defense to Dodocase's breach-of-contract claim was "that the Dodocase Patents are invalid and unenforceable," which makes "[t]he claim of invalidity [] impossible to disentangle" from the question of breach of the agreement.[16]

Judge Laporte rejected MerchSource's argument that "the strong public policy of permitting the United States Patent and Trademark Office to correct its mistakes" should override the forum selection provision.[17] Noting that there is also a "public policy generally favoring enforcement of" forum selection clauses, Judge Laporte reasoned that "it is not clear why" this policy "should not [] prevail over the public policy interest in permitting PTAB review of previously issued patents." [18]

Having held that Dodocase had established a likelihood of success on the merits, Judge Laporte then found that the remaining preliminary injunction factors favored Dodocase.[19] She therefore granted the preliminary injunction, ordering MerchSource to approach the PTAB to request withdrawal of its petitions.[20]

MerchSource appealed to the Federal Circuit on March 27, 2018, and moved for an emergency stay of the district court's preliminary injunction.[21] The Federal Circuit granted the stay on March 28, 2018, and its determination remains pending.[22]

Analysis and Takeaways

Should Judge Laporte's decision be affirmed and her approach adopted by other courts, both litigators and transactional attorneys should consider a few potentially significant ramifications:

A forum selection clause can effectively dispose of a PTAB petition.

Parties negotiating a license agreement should be aware that an exclusive forum selection provision can potentially prohibit invalidity challenges at the PTAB. By bringing a breach-of-contract action in the forum specified by the forum selection clause and obtaining a court order mandating that the petitioner

withdraw its petition, patent owners may be able to summarily dispose of a post-grant petition.

Dodocase indicates that to effectively preclude a licensee from bringing a separate validity challenge at the PTAB, the forum selection provision should be drafted to capture all infringement and validity disputes involving the licensed patents. Here, the broad language of the provision (covering all disputes “arising out of or under” the license agreement) convinced Judge Laporte that the provision encompassed validity disputes.[23] Narrower forum selection provisions limited in scope to controversies “regarding interpretation or fulfillment” of the license agreement may not prohibit the licensee from a PTAB challenge.[24]

A forum selection clause may provide patent owners with a useful alternative to assignor estoppel.

The doctrine of assignor estoppel prohibits a seller of a patent (an assignor) from later challenging the validity of that patent.[25] The PTAB, however, does not recognize assignor estoppel as a defense to institution of an IPR.[26] In the precedential opinion *Athena Automation Ltd. v. Husky Injection Molding System Ltd.*, the PTAB concluded that “we are not persuaded that assignor estoppel, an equitable doctrine, provides an exception to the statutory mandate that any person who is not the owner of a patent may file a petition for an inter partes review.”[27] The Federal Circuit has thus far declined to weigh in on this issue.[28]

A forum selection clause could provide an alternative tactic to dispose of a PTAB challenge from a former patent owner. A buyer of a patent (i.e., an assignee) could incorporate into the assignment agreement a forum selection provision requiring the assignor to bring all validity disputes to a forum other than the PTAB. In this way, the buyer could estop the assignor from challenging the patent in the PTAB even though the PTAB will not apply assignor estoppel.

The PTAB itself may be unwilling to enforce forum selection provisions.

It appears that the PTAB itself is unwilling to dismiss a PGR or IPR based on a forum selection provision. For example, in *Esselte Corp. v. DYMO*, the PTAB concluded that a forum selection provision did not prohibit the IPR.[29] There, the patent owner argued that the IPR petition should be dismissed in view of a forum selection clause in a stock purchase agreement, which allegedly required patent disputes to be brought in a New York-based federal court.[30] The PTAB rejected this defense out of hand, holding that a “contractual bar” defense does not apply in IPR proceedings.[31] [32]

However, the PTAB’s decision in *Esselte* is nonprecedential, and thus it appears possible that a future panel could conclude differently. And in a recent covered business method proceeding, the PTAB indicated a willingness to consider contractual issues: In *MasterCard International Inc. v. Alexam Inc.*, the PTAB authorized petitioner to address the patent owner’s argument that petitioner is contractually estopped from maintaining a CBM due to a forum selection provision in a prior license agreement.[33] Although the MasterCard panel expressed a willingness to consider the forum selection provision, it went on to deny institution for lack of standing, and ultimately did not reach consideration of the forum selection provision.[34]

Conclusion

The *Dodocase v. MerchSource* decision shows that a forum selection provision in a patent license agreement can, in at least some circumstances, be used by a patent owner to dispose of a patent challenge brought at the PTAB by a party to that agreement. Should Judge Laporte’s reasoning and

holding be adopted by other courts, both transactional attorneys and litigators would be wise to consider this potential impact of a forum selection provision. Such a provision may provide patent owners with a useful alternative to assignor estoppel, although enforcing the provision to dispose of a PTAB challenge may require the patent owner to bring a separate suit outside the PTAB. The *Dodocase v. MerchSource* appeal at the Federal Circuit will be interesting to watch.

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[1] *Dodocase VR, Inc. v. MerchSource, LLC*, No. 17-7088, 2018 WL 1475289, at *1 (N.D. Cal. Mar. 26, 2018) (amended order granting plaintiff's motion for preliminary injunction), superseding initial order dated March 23, 2018. Throughout this article, we refer to the March 26, 2018 amended order.

[2] *Id.*

[3] *Id.*

[4] *Id.*

[5] *Id.* at *2.

[6] *Id.* at *1.

[7] *Id.* at *3. See IPR2018-00494, PGR2018-00019, and PGR2018-00020.

[8] *Dodocase VR*, 2018 WL 1475289, at *3.

[9] *Id.* at *4.

[10] *Id.* at *14.

[11] *Id.* at *5.

[12] *Id.* at *5-10.

[13] *Id.* at *7.

[14] *Id.*

[15] *Id.*

[16] Id. at *8.

[17] Id.

[18] Id. at *10. Judge Laporte also quoted the Federal Circuit's 2011 decision in *General Protecht Group, Inc. v. Leviton Manufacturing Co., Inc.* for the proposition that "[t]here is no public interest served by excusing a party's violation of its previously negotiated contractual undertaking to litigate in a particular forum." Id. at *12.

[19] Id. at *11-12.

[20] Id. at *14.

[21] *Dodocase VR, Inc. v. MerchSource, LLC*, appeal docketed, No. 18-1724 (Fed. Cir. Mar. 27, 2018).

[22] *Dodocase VR, Inc. v. MerchSource, LLC*, No. 18-1724 (Fed. Cir. Mar. 28, 2018) (order temporarily staying the district court's preliminary injunction).

[23] *Dodocase VR*, 2018 WL 1475289, at *7.

[24] Id. (quoting *Manetti-Farrow, Inc. v. Gucci Am., Inc.*, 858 F.2d 509, 511 (9th Cir. 1988)).

[25] See assignor estoppel, *Black's Law Dictionary* (10th ed. 2014) ("[e]stoppel barring someone who has assigned the rights to a patent from later attacking the patent's validity.").

[26] See *Athena Automation Ltd v. Husky Injection Molding System Ltd.*, IPR2013-00290, Paper 18 (PTAB Oct. 25, 2013) (precedential).

[27] *Athena Automation Ltd v. Husky Injection Molding System Ltd.*, IPR2013-00290, Paper 18 (PTAB Oct. 25, 2013) (precedential) (citing 35 U.S.C. § 311(a)).

[28] *Husky Injection Molding Sys. Ltd. v. Athena Automation Ltd.*, 838 F.3d 1236, 1245 (Fed. Cir. 2016) ("[W]e conclude that we lack the authority to review the Board's determination in its institution decision that assignor estoppel does not apply at the Patent and Trademark Office."). The Federal Circuit's recent en banc decision in *Wi-Fi One*, which held that the Federal Circuit may review the PTAB's interpretation of the one-year time bar of 35 U.S.C. § 315(b) because the time bar is not "closely related" to the merits of the institution decision, suggests that the Federal Circuit may be open to consideration of the question of whether assignor estoppel should apply at the PTAB. See *Wi-Fi One, LLC v. Broadcom Corp.*, No. 15-1944 (Fed. Cir. Jan. 8, 2018) (en banc).

[29] *Esselte Corp. v. DYMO*, IPR2015-00781, 2015 WL 5117894 (PTAB Aug. 28, 2015).

[30] Id. at *4.

[31] Id.

[32] See also *Oracle Corp. v. Crosswords Sys., Inc.*, IPR2015-00825, Paper 20 at 7 (PTAB Sept. 17, 2015)(citing *Esselte Corp.* and stating "we are not persuaded that contractual estoppel ... preclude[s] us

from instituting an inter partes review”); *Enzymotec Ltd. v. Neptune Techs. & Bioresources Inc.*, IPR2014-00556, Paper 15 at 3 (PTAB Jun. 19, 2014) (rejecting argument that a prior settlement agreement precluded petitioner’s ability to join an IPR, noting that it “would not consider issues of contract law in determining whether joinder was appropriate under the statutes and regulations that govern inter partes review”).

[33] *MasterCard International Inc. v. Alexsam, Inc.*, CBM2017-00041, 2017 WL 4221401, at *1 (P.T.A.B. Sep. 21, 2017) (decision denying institution of CBM review).

[34] *Id.* at *6. The PTAB’s conclusion on lack of standing was itself based in contract, as the Board concluded that a covenant not to sue provision in the same License Agreement precluded any imminent threat that the patent owner could sue the petitioner for infringement, and thus petitioner was not “charged with infringement” as required for standing to petition for CBM under 37 C.F.R. § 42.302(a). *Id.*