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Selection Clause in License Agreement Upheld, Forcing Licensee to Withdraw IPR Petitions

On March 23, 2018, a district court judge issued a preliminary injunction requiring the defendants to withdraw their petitions for inter partes review (IPR) before the Patent Trial and Appeal Board (PTAB). In *Dodocase VR, Inc. f/k/a Dodocase, Inc. v. MerchSource, LLC d/b/a Sharper Image et al*, 3-17-cv-07088-EDL (CAND, March 23, 2018), the district court granted plaintiff's motion for an injunction based on its finding that the terms of the parties' license agreement require that any challenges to the validity of the licensed patents be litigated in either San Francisco or Orange County, California.

Plaintiff manufactures accessories for mobile devices and is the owner of the three patents at issue in this case (collectively, the "Patents-at-Issue"). Defendants sell, manufacture, design, and/or import certain products that plaintiff alleges infringe (or threaten to infringe) the Patents-at-Issue. In October 2016, the parties entered into a Master License Agreement (MLA) regarding the Patents-at-Issue, granting defendants the right to manufacture and sell certain virtual-reality accessories for mobile devices. Among other provisions, the MLA contained a choice-of-law provision stating that "the laws of California shall govern any dispute arising out of or under this Agreement" and a Forum Selection clause stating that "THE PARTIES AGREE . . . THAT DISPUTES SHALL BE LITIGATED BEFORE THE COURTS IN SAN FRANCISCO OR ORANGE COUNTY, CALIFORNIA" (emphasis in original).

Beginning in June 2017, defendants began to express dissatisfaction with both the terms of the MLA and plaintiff's alleged failure to enforce its intellectual property rights against nonlicensed third parties. Defendants informed plaintiff that they believed the allowed claims of the Patents-at-Issue were invalid and stated that they would not pay royalties on products covered by the patents.

Plaintiff filed suit against defendants, seeking both injunctive relief enforcing the MLA and declaratory judgment of the validity of the Patents-at-Issue. After attempts to resolve the dispute were unsuccessful, defendants filed three separate PTAB petitions challenging the validity of the Patents-at-Issue.

Plaintiff terminated the MLA on February 14, 2018, and filed an amended complaint alleging, in relevant part, that defendants' PTAB petitions constituted a breach of the Forum Selection clause of the MLA and seeking injunctive relief against defendants' attempt to challenge the Patents-at-Issue before the PTAB. Plaintiff argued that defendants could not challenge the Patents-at-Issue in the PTAB because the Forum Selection clause of the MLA explicitly requires that all disputes be litigated in either the Northern or Central District of California.

The court applied the four-prong test set out in *Winter v. Natural Resources Defense Council, Inc.*, 555 U.S. 7, 22 (2008) to evaluate plaintiff's request for a preliminary injunction. The four *Winter* factors are (1) likelihood of success on the merits, (2) likelihood of irreparable harm, (3) whether the balance of equities favors an injunction, and (4) whether an injunction is in the public interest.

The court found that all four *Winter* factors favor granting a preliminary injunction against the IPR petitions. First, in finding that plaintiff demonstrated a "likelihood of success" on its breach of contract claim, the court determined that the terms of the MLA required the parties to exclusively litigate all disputes in California under California law and that defendants' IPR petitions were disputes "arising out of or under" the MLA. Further, the court found that there was no reason to find the Forum Selection clause unenforceable, since patent validity can be fairly adjudicated by the district courts. The court also found that plaintiff would be irreparably harmed without an injunction because it would be forced to "simultaneously litigate on two fronts with different attorneys and under different rules" instead of obtaining the benefit of its bargained-for forum. Finally, the court held that granting the

injunction was in the public interest because it "protects the right of parties to freely contract for a chosen forum" and, further, "nothing prevents an independent third party from initiating separate PTAB proceedings."

In issuing its decision, the court ordered defendants to commence the process of withdrawing their IPR petitions which, as a first step, included sending an email to the PTAB to set up a conference call to discuss withdrawal of the petitions. Defendants appealed the district court's order to the Court of Appeals for the Federal Circuit and filed an emergency motion for the injunction to be stayed pending appeal. The Federal Circuit appeal is docketed as *Dodocase VR, Inc. f/k/a Dodocase, Inc. v. MerchSource, LLC d/b/a Sharper Image et al*, Case No. 18-1724 (Fed. Cir.). On March 28, 2018, the Federal Circuit issued an order temporarily staying the injunction while the court considers defendants' motion. Dkt. No. 6.

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