

18-1724

United States Court of Appeals
for the Federal Circuit

DODOCASE VR, INC., fka Dodocase, Inc.

Plaintiff-Appellee,

v.

MERCHSOURCE, LLC, dba Sharper Image,

Defendant-Appellant,

THREESIXTY BRANDS GROUP, LLC, dba Sharper Image,

Defendant

*Appeal from the United States District Court
for Northern District of California in No. 3:17-cv-07088-EDL
Magistrate Judge Elizabeth D. Laporte*

COMBINED PETITION FOR REHEARING AND REHEARING *EN BANC*

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UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

Dodocase VR, Inc. v. MerchSource, LLC

Case No. 18-1724

CERTIFICATE OF INTEREST

Counsel for the:

(petitioner) (appellant) (respondent) (appellee) (amicus) (name of party)

MerchSource, LLC

certifies the following (use "None" if applicable; use extra sheets if necessary):

1. Full Name of Party Represented by me	2. Name of Real Party in interest (Please only include any real party in interest NOT identified in Question 3) represented by me is:	3. Parent corporations and publicly held companies that own 10% or more of stock in the party
MerchSource, LLC	None	None

4. The names of all law firms and the partners or associates that appeared for the party or amicus now represented by me in the trial court or agency or are expected to appear in this court **(and who have not or will not enter an appearance in this case)** are:

None

5. The title and number of any case known to counsel to be pending in this or any other court or agency that will directly affect or be directly affected by this court's decision in the pending appeal. *See* Fed. Cir. R. 47.4(a)(5) and 47.5(b). (The parties should attach continuation pages as necessary).

DODOCASE VR, INC. v. MERCHSOURCE, LLC, et al, United States District Court for the Northern District of California Case No. 3:17-cv-07088-EDL

PTAB IPR2018-00494
PTAB PGR2018-00019
PTAB PGR2018-00020

5/20/2019

Date

/s/ Kyle B. Fleming

Signature of counsel

Kyle B. Fleming

Printed name of counsel

Please Note: All questions must be answered

cc: _____

Reset Fields

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**CERTIFICATE OF COUNSEL
FEDERAL CIRCUIT RULE 35(B)(2)**

Based on my professional judgment, I believe the panel decision is contrary to the following decision(s) of the Supreme Court of the United States or the precedent(s) of this court: *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969); *Flex-Foot, Inc. v. CRP, Inc.*, 238 F.3d 1362 (Fed. Cir. 2001); *Panduit Corp. v. All States Plastic Mfg. Co.*, 744 F.2d 1564 (Fed. Cir. 1984) (per curiam); *General Protecht Group, Inc. v. Leviton Mfg. Co., Inc.*, 651 F.3d 1355 (Fed. Cir. 2011).

Based on my professional judgment, I believe this appeal requires an answer to one or more precedent-setting questions of exceptional importance:

1. Are contractual forum selection clauses interpreted under regional circuit law as according to precedent, or are AIA proceedings to review the validity of patents necessarily covered by the forum clause in any patent license agreement regardless of the clause language?

2. Can the Supreme Court's ruling in *Lear*, prohibiting contractual obstacles to validity challenges, be overcome in the absence of the countervailing public policy set forth in *Flex-Foot*?

/s/ Kyle B. Fleming
Attorney of Record for Appellant

I. INTRODUCTION

This case is particularly well-suited for rehearing *en banc* because the panel’s opinion (“Opinion”) imposes a significant, far-reaching restriction on the availability of Congressionally created AIA patent review.

The Opinion holds that standard, generic forum clause language from a patent license bars the licensee from pursuing statutory AIA review of the licensed patents. This holding is *not* the result of applying precedent and applicable law to interpret the specific language of the parties’ forum clause—rather, the Opinion holds that patent license forum clauses cover AIA post-grant proceedings *as a matter of law*. This creates a new, significant, retroactive, and sweeping restriction that precludes most licensees from pursuing PTO review under the AIA.¹ Such preclusion is contrary to the plain language of the AIA and Congressional intent, contrary to the Supreme Court’s decision in *Lear*, and contrary to the public policy favoring AIA review of patents by the PTO as expressed by the Supreme Court, this Court, and the PTO.

¹ Using the Opinion to thwart AIA challenges is already being publicized. *See, e.g.*, “Shutting Down the PTAB with Forum Selection Clauses” <https://www.patentpostgrant.com/shutting-down-the-ptab-with-forum-selection-clauses/> (last visited May 20, 2019).

II. SUMMARY OF PROCEEDINGS

The proceedings illustrate the need for *en banc* consideration of the application of contractual forum selection clauses to AIA proceedings at the PTAB. MerchSource, a non-exclusive licensee under the parties' license ("the MLA"), delivered a *Lear* notice stating that it would no longer pay royalties because all relevant claims are invalid. Dodocase then filed a district court action for breach and infringement. MerchSource timely filed three AIA petitions with the PTAB a few weeks later and before answering.

Dodocase then sought, and the district court granted, a preliminary injunction ordering MerchSource to seek pre-institution withdrawal of the AIA petitions from the PTAB. The district court found that the AIA invalidity proceedings were within the narrow forum clause in the MLA covering only disputes "arising out of or under this Agreement."

MerchSource sought and obtained emergency orders² from this Court staying the preliminary injunction pending appeal. The district court then stayed the action below.

Dodocase never raised the forum issue with the PTAB and, in August 2018, the PTAB instituted review on all three petitions.³ The AIA proceedings continued

² ECF 6 and 22 (before Judges Dyk, Moore, Reyna).

³ Thus, the PTAB panel has not had occasion to consider the MLA forum clause.

and are substantively complete except for oral argument and the issuance of a final decision. However, the PTAB panel postponed oral argument after the Opinion issued.

III. POINTS OF LAW AND FACT MISAPPREHENDED BY THE PANEL

A. The Panel Misapprehended The Law When Holding That AIA Proceedings Fell Within The Scope Of The Forum Clause

The panel failed to apply the controlling regional circuit law⁴ regarding interpreting forum clause language, and then misapplied *Texas Instr.* to find that AIA proceedings *necessarily* fall within *any* patent license forum clause regardless of the clause's language.

In the Ninth Circuit under *Manetti-Farrow*⁵ and its progeny, a non-contract claim is within the scope of a contractual forum clause only if (i) resolution of the

⁴ *E.g.*, *Sanofi-Aventis v. Apotex Inc.*, 659 F.3d 1171, 1178 (Fed. Cir. 2011) (“the interpretation of a settlement agreement is not an issue unique to patent law, we apply the law of the appropriate regional circuit”); *DePuy Spine, Inc. v. Medtronic Sofamor Danek, Inc.*, 469 F.3d 1005, 1013 (Fed. Cir. 2006) (“Interpretation of contract terms is ... reviewed under regional circuit law.”); *Deprenyl Animal Health, Inc. v. Univ. of Toronto Innovations Found.*, 297 F.3d 1343, 1349 (Fed. Cir. 2002) (“regional circuit law governs the determination of whether [patent claims] fall within the scope of the arbitration clause of the parties’ agreement.”); *Flex-Foot, Inc. v. CRP, Inc.*, 238 F.3d 1362, 1365 (Fed. Cir. 2001) (applying regional circuit law, not Federal Circuit or California law, to interpretation of settlement agreement). *See also, infra*, n.26.

⁵ *Manetti-Farrow, Inc. v. Gucci Am., Inc.*, 858 F.2d 509 (9th Cir. 1988).

claim “requires interpretation of the contract” or (ii) the claim cannot “be adjudicated without analyzing whether the parties were in compliance with the contract.”⁶ This test is widely used in federal courts—the same inquiry is used in other circuits to interpret forum and arbitration clauses,⁷ and it is also by the Supreme Court to determine whether a claim “arises under” 28 U.S.C. § 1331 (federal question) or § 1338 (patent laws).⁸ While the Opinion does not apply or reference *Manetti-Farrow* or the appropriate test, it is undeniable that the PTAB

⁶ *Id.* at 514. *Manetti-Farrow* and its progeny are more fully discussed in Appellant’s Brief (ECF. 28), pp. 12-21 and Appellant’s Reply Brief (ECF. 37), pp. 2-17.

⁷ Several other circuits have cited the Ninth Circuit test with approval. *See, e.g., Magi XXI, Inc. v. Stato della Citta del Vaticano*, 714 F.3d 714, 724 (2d Cir. 2013); *McKeage v. TMBC, LLC*, 847 F.3d 992, 1003 n.6 (8th Cir. 2017); *Kelvion, Inc. v. PetroChina Canada Ltd.*, 918 F.3d 1088, 1092 (10th Cir. 2019); *Stiles v. Bankers Healthcare Grp., Inc.*, 637 F. App’x 556, 561 (11th Cir. 2016). *Accord Dr. Kenneth Ford v. NYLCare Health Plans of Gulf Coast, Inc.*, 141 F.3d 243, 250 (5th Cir. 1998) (claim “is not arbitrable if it ... could be maintained without reference to [the] contract.”); *Fazio v. Lehman Bros.*, 340 F.3d 386, 395 (6th Cir. 2003) (“A proper method of analysis here is to ask if an action could be maintained without reference to the contract or relationship at issue.”).

⁸ *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 808-09 (1988) (“arises under” means “only to those cases in which a well-pleaded complaint establishes either that federal patent law creates the cause of action or that the plaintiff’s right to relief necessarily depends on resolution of a substantial question of federal patent law.”)

can determine patent validity under the AIA and §§ 102 and 103 without any interpretation or analysis of, or reference to, the license.

The MLA’s irrelevance to the AIA or PTAB proceedings is confirmed by the parties’ actual AIA proceedings, which combine for nearly a dozen merit briefs—with not a single argument based on, or referencing, the MLA. The MLA is not even an exhibit. It is undisputed that the MLA is not relevant in any way to the AIA or PTAB validity analysis. Therefore, under applicable Ninth Circuit law, the AIA proceedings before the PTAB do not “arise out of or under” the MLA and are not covered by the forum clause.

But rather than applying applicable Ninth Circuit law, the Opinion instead relies on the *Texas Instr.* holding that ITC patent *infringement* actions were covered by the license’s forum clause.⁹ But the sole issue in *Texas Instr.* was whether an ITC § 337 investigation constituted “litigation.”¹⁰ Neither party in *Texas Instr.* argued, and no court interpreted, the meaning of “aris[ing] from,

⁹ *Texas Instruments Inc. v. Tessera, Inc.*, 231 F.3d 1325 (Fed. Cir. 2000). This case was not cited or discussed by the parties or the district court, and was raised by the panel for the first time during oral argument.

¹⁰ *Id.* at 1328 (“The district court concluded that the agreement’s governing law clause “is limited to ‘litigation’ and that [TI] has not established a likelihood of proving that [Tessera’s] action before the ITC is litigation.”) citing *Texas Instruments Inc. v. Tessera, Inc.*, 192 F.R.D. 637, 640 (C.D. Cal. 2000).

under, out of or in connection with” the license. Because *Texas Instr.* did not address the issue or apply the relevant Ninth Circuit law, it cannot be used as a shortcut or substitute for applying established Ninth Circuit law to interpret the MLA’s “arising out of or under” language.¹¹

This is not to say that *Texas Instr.* was wrongly decided, just wrongly extended to AIA invalidity reviews. An ITC or district court action for patent *infringement* is covered by a license’s forum clause because interpreting the scope of the licensee’s “authority” is necessary to determine infringement. This was the explanation of *Texas Instr.* by this Court in *General Protecht*:

The outcome of that [analyzing and interpreting the scope of a patent license] will determine whether the patentee can sustain its suit for infringement. Thus, there is no question in this case that the [ITC infringement] dispute “relates to or arises out of” the [license].¹²

¹¹ While California law generally governs the substantive interpretation of the MLA, “federal [Ninth Circuit] law governs interpretation of a forum selection clause in a federal question case.” *Dawson v. Cagle Cartoons, Inc.*, 2013 WL 4829317 at *3 (E.D. Cal. Sept. 9, 2013) (citations omitted) (collecting and examining Ninth Circuit cases). However, California courts also apply the Ninth Circuit test. *Bancomer, S. A. v. Superior Court*, 44 Cal. App. 4th 1450, 1461 (1996) (“[w]hether a forum selection clause applies to tort claims depends on whether resolution of the claims relates to interpretation of the contract” citing *Manetti–Farrow*).

¹² *General Protecht*, 651 F.3d at 1359. Infringement expressly requires that the defendant act “without authority,” 35 U.S.C. § 271(a), thus, interpreting the scope of a license’s “authority” is necessary to adjudicate infringement.

Texas Instr. and *General Protecht* involved ITC actions for patent infringement, and those results are consistent with the *Manetti-Farrow* test because substantive interpretation of the license was necessary to adjudicate infringement. But neither case addressed AIA invalidity proceedings and, as discussed above, the MLA is completely irrelevant to adjudicating invalidity.

The Opinion also relies on dicta from *Texas Instr.* that “the governing law clause in the present case, as in any patent license agreement, necessarily covers disputes concerning patent issues.”¹³ While this is true for infringement disputes such as ITC actions at issue in *Texas Instr.* and *General Protecht*, there is no evidence, support, analysis or authority for expanding it to AIA validity challenges. Indeed, such a wide-reaching and sweeping application disregards the actual contract language, ignores regional circuit law, and creates expansive, new Federal Circuit law.

B. The Panel Overlooked The Strong Public Policy Favoring AIA Validity Review By The PTO Of Issued Patents

A forum clause is unenforceable if it would contravene a strong public policy, expressed by statute or judicial decision.¹⁴ This Court, the Supreme Court,

¹³ *Texas Instr.*, 231 F.3d at 1331.

¹⁴ *M/S Bremen v. Zapata Off-Shore Co.*, 407 U.S. 1, 15 (1972).

the PTO and Congress all have recognized and expressed strong public policies favoring AIA review of issued patents by the PTO.

The Federal Circuit recently recognized that Congress created AIA reviews to serve “an important public purpose—to correct the agency’s own errors in issuing patents in the first place.”¹⁵ Further, AIA reviews also serve other important public policies, to “provid[e] a more efficient system for challenging patents that should not have issued” and to “establish a more efficient and streamlined patent system that will improve patent quality and limit unnecessary and counterproductive litigation costs.”¹⁶

The strong public policies favoring AIA review are further supported by the Supreme Court’s recent decision in *Oil States*,¹⁷ holding that a patent is a public-rights matter between the public and the patentee. AIA review is simply an extension of the PTO’s executive power to grant patents to ensure that the “immense value” of a patent has not been improvidently granted:

Inter partes review is “a second look at an earlier administrative grant of a patent.” The Board considers the same statutory requirements that

¹⁵ *MCM Portfolio LLC v. Hewlett-Packard Co.*, 812 F.3d 1284, 1290-91 (Fed. Cir. 2015) (citations omitted).

¹⁶ *Id.* at 39-40 (quoting H.R.Rep. No. 112-98, 2011 U.S.C.C.A.N. 67, 69).

¹⁷ *Oil States Energy Services, LLC v. Greene’s Energy Group, LLC*, -U.S.-, 138 S.Ct. 1365 (2018).

the PTO considered when granting the patent. Those statutory requirements prevent the “issuance of patents whose effects are to remove existent knowledge from the public domain.” So, like the PTO’s initial review, the Board’s inter partes review protects “the public’s paramount interest in seeing that patent monopolies are kept within their legitimate scope.” Thus, inter partes review involves the same interests as the determination to grant a patent in the first instance.¹⁸

The strong public policies favoring AIA review are amplified by another strong public policy favoring licensee challenges to validity. In *Lear*, the Supreme Court voided contractual restrictions to validity challenges,¹⁹ recognizing that license provisions must yield to the strong public policy favoring challenges to validity—particularly, in part, because *licensees* are often the *only* parties with economic incentive to mount an invalidity challenge:

Surely the equities of the licensor do not weigh very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain. ***Licensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor’s discovery.*** If they are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification. ***We think it plain that the technical requirements of contract doctrine must give way before the demands of the public interest.***²⁰

¹⁸ *Id.* at 1374.

¹⁹ “The [*Lear*] holding that licensee estoppel was no longer tenable was rooted in the second line of cases eliminating obstacles to suit by those disposed to challenge the validity of a patent.” *Blonder-Tongue Labs., Inc. v. Univ. of Illinois Found.*, 402 U.S. 313, 345 (1971).

²⁰ *Lear*, 395 U.S. at 670 (emphasis added).

Lastly, Dodocase did not raise the forum clause with the PTAB in any of the proceedings, so the PTO has not been afforded an opportunity to be heard here. However, the PTO did previously hold that a contractual provision preventing (pre-AIA) reexamination would be void and contrary to public policy under *Lear*:

[A] contractual provision preventing a party from seeking reexamination would be void as being contrary to public policy. In *Lear* ... the United States Supreme Court determined that prohibiting licensees from challenging the validity of a patent that they had licensed runs afoul of public policy “in permitting full and free competition in the use of ideas which are in reality part of the public domain.” *id.* at 670. By analogy, preventing a third-party requester (and a potential licensee of the subject patent) from requesting reexamination of a patent would be contrary to the public policy embodied in the *Lear v. Adkins* decision.²¹

The Supreme Court, this Court, Congress and the PTO have all expressed the importance and strong public interests in AIA reviews and validity challenges by licensees. A contract clause that interferes with these strong interests is against public policy and should not be effective.

²¹ Inter Partes Reexamination Proceeding, Decision on Petition to Vacate Order Granting Reexamination, Control No. 95/000,123 at 11 (Office of Patent Legal Admin. June 7, 2006) (emphasis added). Appx548.

IV. ARGUMENT

A. The Panel Should Rehear The Matter

The panel should rehear the arguments for all the reasons set forth above, and also because Dodocase waived reliance on *Texas Instr.* or its holding by failing to raise it in its appellate brief.²² In fact, MerchSource’s opening brief argued that *General Protecht* (applying *Texas Instr.*) did not support the district court’s interpretation of the forum clause or its application to PTAB proceedings.

Dodocase’s entire substantive response on that issue was:

[T]he District Court did not rely on *General Protecht* with respect to the issue of whether the “dispute” language from the forum selection clause encompasses validity challenges.²³

Dodocase therefore waived reliance on the *Texas Instr./General Protecht* holdings regarding the scope of the forum clause or as an alternative basis for affirmance. Had Dodocase timely raised this argument, it could have been addressed in MerchSource’s Reply instead of being raised *sua sponte* by the panel during oral argument.

²² See, e.g., *Corus Staal BV v. United States*, 502 F.3d 1370, 1378 (Fed. Cir. 2007) (“Corus did not raise that argument in its opening brief, however, and we therefore treat that argument as waived); *Milo & Gabby LLC v. Amazon.com, Inc.*, 693 F. App’x 879, 891 (Fed. Cir. 2017) (“Because our law is well established that an argument must be raised in a party’s opening brief ... we consider this argument waived.”).

²³ ECF 34 at 18.

B. The Court Should Consider The Matter *En Banc* To Maintain Uniformity Of Precedential Decisions And Because The Proceeding Involves Questions Of Exceptional Importance

As discussed above, the Opinion extends far beyond the parties, creating significant and sweeping ramifications for all patent licensees by holding that forum clauses thwart AIA challenges. As one legal commentator reported:

[The Opinion] is making stakeholders in the patent licensing community sit up and take note. The case was *Dodocase VR, Inc. v. MerchSource, LLC*, holding that a boilerplate forum selection clause in a licensing agreement can prevent a validity challenge at the U.S. Patent and Trademark Office Patent Trial and Appeal Board (PTAB), even though the clause makes no mention of PTAB proceedings.²⁴

The wide-ranging impact on licensees and AIA proceedings evidences the exceptional importance and need for *en banc* consideration. In addition to all of the reasons set forth above, *en banc* consideration is needed to maintain consistency and to answer two precedent setting questions of exceptional importance.

- 1. Are forum selection clauses of patent licenses interpreted under regional circuit law as according to precedent, or are AIA review proceedings necessarily covered by forum clauses regardless of the clause language?**

The Opinion reverses well-established precedent that contractual clauses are interpreted under regional circuit law, effectively supplanting it with new,

²⁴ <https://www.knobbe.com/news/2019/04/common-forum-selection-clause-license-agreement-prevents-patent-validity-challenge-ptab> (last visited May 20, 2019).

expansive Federal Circuit law that AIA reviews are necessarily within the scope of patent license forum clauses. Such a dramatic and profound shift in the law—retroactively ensnaring existing licensees—should only be considered and decided *en banc*.²⁵

One of the earliest Federal Circuit decisions established the long-standing rule that this Court would “defer to regional circuit procedural law on questions ‘not unique to patent law.’”²⁶ The interpretation of contract language which, even in the context of a patent license, is not unique to patent law is therefore governed by regional circuit law.²⁷ Further, “[w]hen the regional circuit court has spoken on a legal issue, we must apply the law as stated.”²⁸

The Ninth Circuit has spoken on the scope of contractual forum clauses, and the panel was obligated to “apply the law as stated” in *Manetti-Farrow* and its progeny. But, as discussed above, the Opinion plainly ***did not*** apply *Manetti-*

²⁵ “A prior precedential decision on a point of law by a panel of this court is binding precedent and cannot be overruled or avoided unless or until the court sits en banc.” *Preminger v. Sec’y of Veterans Affairs*, 517 F.3d 1299, 1309 (Fed. Cir. 2008) (citations omitted).

²⁶ *In re ZTE (USA) Inc.*, 890 F.3d 1008, 1012 (Fed. Cir. 2018) (internal citation omitted) citing *Panduit*, 744 F.2d at 1574–75 (establishing general rule) overruled on other grounds by *Richardson-Merrell, Inc. v. Koller*, 472 U.S. 424 (1985).

²⁷ See, e.g., *Deprenyl*, 297 F.3d at 1349 (interpretation of arbitration clause in patent license governed by Tenth Circuit law). See also, *supra*, n.3.

²⁸ *Badalamenti v. Dunham’s, Inc.*, 896 F.2d 1359, 1362 (Fed. Cir. 1990).

Farrow or any Ninth Circuit law to interpret the “arising out of or under” contract language. And neither did *Texas Instr.* because it did not have to—the language of the forum clause was not disputed except for deciding if an ITC infringement investigation was considered “litigation.” Thus, applying *Texas Instr.* to interpret the “arising out of or under” contract language was *not* an application of regional circuit law, but rather surreptitious creation of Federal Circuit law.

Although “non-precedential,” the Opinion is nevertheless conflicting authority for district courts regarding forum clauses in patent agreements. Should district courts follow the long-precedent of applying regional circuit law interpreting this contract language? This is not what the panel did, but it would be consistent with *General Protecht* where the Court based its holding on whether interpretation of the license was necessary to analyze infringement.

Or should district courts follow the new law of the Opinion that forum clause language need not be interpreted because any dispute involving a patent—including AIA invalidity proceedings—necessarily falls within the scope of a patent license forum clause?

The split in approaches between precedent and the Opinion is substantive, exceptional, and wide-reaching, and this Court should answer the issue *en banc*.

2. Can the Supreme Court’s ruling in *Lear*, prohibiting contractual obstacles to validity challenges, be overcome in the absence of the countervailing public policy set forth in *Flex-Foot*?

In *Blonder-Tongue*, the Supreme Court explained that *Lear* was rooted in a line of “cases eliminating obstacles to suit by those disposed to challenge the validity of a patent.”²⁹ And *Lear* itself explained that “the technical requirements of contract doctrine must give way before the demands of the public interest,” in part because “the equities of the licensor do not weigh very heavily when they are balanced against the important public interest[s]” in eliminating invalid patents.³⁰

Lear held contract provisions erecting obstacles to challenging validity are void against public policy because contractual interests are outweighed by important public policies and interests. In *Flex-Foot*, this Court recognized a limitation to *Lear* for settlement agreements of pending litigation because they involve the countervailing public policy of resolving litigation and res judicata.³¹

But resolving litigation and res judicata are not present here, and the Opinion fails to identify any countervailing public policy to *Lear*. Indeed, the Opinion fails

²⁹ *Supra*, n.19.

³⁰ *Supra*, n.20.

³¹ *Flex-Foot*, 238 F.3d at 1368–69.

to substantively address or even mention public policy.³² *Lear* already decided that contractual interests are insufficient in light of public policies, so the Opinion is contrary to *Lear* and *Flex-Foot* because it does not and cannot point to any countervailing public policy justifying the contractual barrier to AIA validity proceedings.

In order to maintain consistency and to answer this question of exceptional importance, the Court should consider *en banc* if a countervailing public policy exists here to create a new exception to *Lear*.

V. CONCLUSION

For the reasons set forth, the panel should reconsider or the Court should rehear the matter *en banc*.

Date: May 20, 2019

Respectfully submitted,

/s/ Kyle B. Fleming

Mark C. Johnson

Kyle B. Fleming

RENNER OTTO

Counsel for Defendant-Appellant

³² The Opinion apparently dispenses with the entire public policy argument by stating, “[w]e have considered MerchSource’s remaining arguments and find them unpersuasive.” Opinion at 9.

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Date: May 20, 2019

Respectfully submitted,

/s/ Kyle B. Fleming

Mark C. Johnson

Kyle B. Fleming

NOTE: This disposition is nonprecedential.

**United States Court of Appeals
for the Federal Circuit**

**DODOCASE VR, INC., FKA DODOCASE, INC., DDC
TECHNOLOGY, LLC,**
Plaintiffs-Appellees

v.

MERCHSOURCE, LLC, DBA SHARPER IMAGE,
Defendant-Appellant

**THREESIXTY BRANDS GROUP, LLC, DBA
SHARPER IMAGE,**
Defendant

2018-1724

Appeal from the United States District Court for the
Northern District of California in No. 3:17-cv-07088-EDL,
Magistrate Judge Elizabeth D. Laporte.

Decided: April 18, 2019

GABRIEL I. OPATKEN, NOBLE IP LLC, Chicago, IL, ar-
gued for plaintiffs-appellees. Also represented by TIMOTHY
J. HALLER, Haller Law PLLC, Chicago, IL.

KYLE BRADFORD FLEMING, Renner Otto, Cleveland,

OH, argued for defendant-appellant. Also represented by MARK JOHNSON.

Before PROST, *Chief Judge*, REYNA and STOLL,
Circuit Judges.

PROST, *Chief Judge*.

MerchSource, LLC (“MerchSource”) appeals the United States District Court for the Northern District of California’s order granting Dodocase VR, Inc.’s (“Dodocase”) motion for preliminary injunction and ordering MerchSource to attempt to withdraw three PTAB petitions it filed and attempt to dismiss the PTAB proceedings. Having considered the parties’ arguments, we affirm the district court’s grant of the preliminary injunction. We remand, however, for the district court to modify the preliminary injunction order with new deadlines by which to take the ordered actions.

I

Dodocase was the original owner of U.S. Patent Nos. 9,420,075 (“the ’075 patent”); 9,723,117 (“the ’117 patent”); and 9,811,184 (“the ’184 patent”), generally related to virtual reality headsets. MerchSource is a distributor of consumer products, including virtual reality headsets. On October 4, 2016, Dodocase and MerchSource entered into a Master License Agreement (“MLA”) covering the ’075, ’117, and ’184 patents. J.A. 430–36. The MLA included a no-challenge clause and a forum selection clause, reproduced below:

6.4 MerchSource shall not (a) attempt to challenge the validity or enforceability of the Licensed IP; or (b) directly or indirectly, knowingly assist any Third Party in an attempt to challenge the validity or enforceability of the Licensed IP except to comply with any court order or subpoena.

. . . .

13.4 The laws of the State of California shall govern any dispute arising out of or under this Agreement, notwithstanding the conflict of laws principles of the State of California . . . THE PARTIES AGREE THAT THE SUBJECT MATTER AND PERSONAL JURISDICTION ARE PROPER IN THE COURTS LOCATED IN SAN FRANCISCO COUNTY OR ORANGE COUNTY, CALIFORNIA AND THAT DISPUTES SHALL BE LITIGATED BEFORE THE COURTS IN SAN FRANCISCO COUNTY OR ORANGE COUNTY, CALIFORNIA.

J.A. 432 § 6.4; J.A. 435 § 13.4.

On October 5, 2017, MerchSource informed Dodocase that MerchSource would no longer pay royalties under the MLA because it believed that all relevant patent claims were invalid. On December 13, 2017, Dodocase filed a complaint against MerchSource in the Northern District of California seeking an injunction to prevent MerchSource from breaching the MLA and infringing the patents and a declaratory judgment that the patents were valid and enforceable. J.A. 65–84.

On January 15, 2018, MerchSource filed petitions requesting *inter partes* review (“IPR”) of the ’075 patent and post grant review (“PGR”) of the ’117 and ’184 patents (collectively, “the PTAB petitions”).

On February 14, 2018, Dodocase filed an amended complaint adding supplemental allegations that MerchSource further breached the MLA’s no-challenge and forum selection clauses by filing the PTAB petitions. Shortly thereafter, Dodocase filed a motion for a temporary restraining order and preliminary injunction requesting that the district court order MerchSource to withdraw the PTAB petitions.

On March 23, 2018, the district court granted Dodocase's motion for preliminary injunction. *Dodocase VR, Inc. v. MerchSource, LLC*, No. 17-CV-07088-EDL, 2018 WL 1456718, at *14 (N.D. Cal. Mar. 23, 2018).¹ The district court held that Dodocase was likely to succeed on the merits of its claim that MerchSource breached the forum selection clause when it filed its PTAB petitions. *Dodocase*, 2018 WL 1475289, at *5–10.² The district court also held that Dodocase established the other three requirements for a preliminary injunction. *Id.* at *11–12. The preliminary injunction ordered MerchSource to “(1) send the email to the PTAB by Sunday March 25, 2018 requesting a conference call to facilitate the withdrawal of the PTAB Petitions, and (2) if the PTAB grants permission to file motions to dismiss the petitions, then file the motions by 12:00 p.m. on April 3, 2018.” *Id.* at *14.

On March 26, 2018, MerchSource filed a notice of appeal with this court. *See* ECF No. 1. The next day, MerchSource filed an Emergency Motion for Stay, requesting a stay of the district court's preliminary injunction order instructing MerchSource to attempt to withdraw the PTAB petitions pending this appeal. *See* ECF No. 4. MerchSource's Emergency Motion for Stay was temporarily granted on March 28, 2018. ECF No. 6. After the

¹ On March 26, 2018, the district court entered an amended order on the preliminary injunction, which was essentially identical to the March 23, 2018 order, except for the location of a case citation. *Dodocase VR, Inc. v. MerchSource, LLC*, No. 17-CV-07088-EDL, 2018 WL 1475289 (N.D. Cal. Mar. 26, 2018).

² The district court rejected Dodocase's argument that it was likely to prevail on the merits of its claim that MerchSource also breached the no-challenge clause, but that is not at issue in this appeal. *See id.* at *4–5.

Emergency Motion for Stay was fully briefed, it was granted on April 25, 2018. ECF No. 22.

With the district court's preliminary injunction stayed, the PTAB proceedings were allowed to continue. On August 22, 2018, the PTAB instituted IPR of the '075 patent (IPR2018-00494) and PGR of the '117 patent (PGR2018-00019) and '184 patent (PGR2018-00020). The PTAB proceedings have continued to progress, and the PTAB is expected to issue its final written decisions in August 2019.

On October 16, 2018, Dodocase sold and assigned the three licensed patents to DDC Technology, LLC ("DDC"). On March 7, 2019, MerchSource filed a Motion and Observation of Mootness, ECF No. 54 ("Motion") in this court. In it, MerchSource argues that because Dodocase assigned the rights in the patent to DDC who became the patent owner in the PTAB proceedings, the preliminary injunction and the appeal of the preliminary injunction are moot. Motion at 5–6. On March 18, 2019, Dodocase filed its response to MerchSource's Motion, ECF No. 57 ("Response"), arguing that the case was not moot because DDC "filled the shoes of" Dodocase. Response at 4, 13–14. MerchSource filed its reply on March 22, 2019, ECF Nos. 61, 62 ("Reply").

We have jurisdiction pursuant to 28 U.S.C. §§ 1292(c)(1) and 1295(a)(1).

II

We review a grant of a preliminary injunction for an abuse of discretion. *Abbott Labs. v. Sandoz, Inc.*, 544 F.3d 1341, 1345 (Fed. Cir. 2008) (citing *Doran v. Salem Inn, Inc.*, 422 U.S. 922, 931–32 (1975)).

"A plaintiff seeking a preliminary injunction must establish that he is likely to succeed on the merits, that he is likely to suffer irreparable harm in the absence of preliminary relief, that the balance of equities tips in his favor, and that an injunction is in the public interest." *Winter v. Nat. Res. Def. Council, Inc.*, 555 U.S. 7, 20 (2008).

The district court's order granting Dodocase's motion for preliminary injunction also presents an issue of interpreting the MLA. "General contract interpretation is not within the exclusive jurisdiction of the Federal Circuit." *Texas Instruments Inc. v. Tessera, Inc.*, 231 F.3d 1325, 1329 (Fed. Cir. 2000). The Supreme Court has held that "the interpretation of private contracts is ordinarily a question of state law." *Volt Info. Scis., Inc. v. Bd. of Trs. of Leland Stanford Junior Univ.*, 489 U.S. 468, 474 (1989). Furthermore, the governing law clause states that "[t]he laws of the State of California shall govern any dispute arising out of or under this Agreement" J.A. 435 § 13.4. We therefore apply California state law to interpret the MLA. Under California state law, contracts are interpreted without deference on appeal. See *Texas Instruments*, 231 F.3d at 1329.

III

We first address MerchSource's appeal of the district court's grant of Dodocase's motion for preliminary injunction.

As to the likelihood of success on the merits element, the district court found that Dodocase was likely to succeed on its claim that MerchSource filed the PTAB petitions in violation of the forum selection clause of the MLA. *Dodocase*, 2018 WL 1475289, at *5–10. The key issue before the district court and on appeal is whether the forum selection clause extends to PTAB proceedings. The district court interpreted the forum selection clause of the MLA to cover PTAB proceedings. *Id.* at *7–8.

The forum selection clause of the MLA states that "[t]he laws of the State of California shall govern any dispute *arising out of or under* this Agreement." J.A. 435 § 13.4 (emphasis added). The district court identified the relevant question as whether the PTAB petitions constitute a "dispute" that "aris[es] out of or under" the MLA. *Dodocase*, 2018 WL 1475289, at *7.

On appeal, MerchSource argues that PTAB challenges do not “aris[e] out of or under” the MLA and that, therefore, the forum selection clause does not cover PTAB proceedings. Appellant’s Br. 12–21. Specifically, MerchSource argues that a PTAB challenge “does not arise from or out of the MLA; does not depend on the MLA; does not require any analysis, construction, interpretation or enforcement of the MLA; and, simply stated, does not relate to the MLA.” *Id.* at 12. MerchSource argues that Dodocase “distort[s] the inquiry” from the correct question of “whether the dispute brought on by MerchSource—a dispute over the validity of the DODOCASE Patents—arises out of or under the MLA.” Appellee’s Br. 12; *see also id.* at 19.

We have previously interpreted a governing law clause with similar language. *See Texas Instruments*, 231 F.3d at 1331. The governing law clause in *Texas Instruments* lists “disputes, controversies, claims or difference[s] which may arise from, under, out of or in connection with this Agreement.” *Id.* (emphasis added). In *Texas Instruments*, we explained that:

the governing law clause of the license agreement is not limited to license related issues such as the amount of royalty due, term of agreement, and cross-licensing. . . . Patent infringement disputes do arise from license agreements. There may be an issue, as here, of whether certain goods are covered by the licensed patents; or the licensee may elect to challenge the validity of the licensed patents. Thus, the governing law clause in the present case, as in any patent license agreement, necessarily covers disputes concerning patent issues.

See id. (citations omitted). Applying California law, we found that the forum selection clause at issue, which used the language “arise from, under, out of or in connection with this Agreement,” encompassed ITC proceedings initiated after the license agreement was executed. *See id.*

at 1331–32. Here, the district court did not err in concluding that the language of the forum selection clause of the MLA, which used similar language, “arising out of or under this Agreement,” encompassed PTAB proceedings.³

We therefore affirm the district court’s holding on the first preliminary injunction requirement that Dodocase was likely to succeed on the merits of its claim that MerchSource violated the forum selection clause of the MLA by filing the PTAB petitions.

Turning to the second requirement, irreparable harm, Dodocase argued at the district court that it would be irreparably harmed without an injunction because it would be forced to litigate on multiple fronts (PTAB and district court) and would be deprived of its bargained-for forum. *Dodocase*, 2018 WL 1475289, at *11. MerchSource argues on appeal that there is no irreparable harm in a patent owner having to defend its patents before the PTAB. *See* Appellant’s Br. 28–33. The district court evaluated the alleged harm to Dodocase, including the hardships “manifest in the need to defend a challenged patent on multiple fronts at the same time” and the fact that Dodocase was a small company with limited employees and resources, and determined that Dodocase established that it would be irreparably harmed in the absence of an injunction. *See Dodocase*,

³ At oral argument, MerchSource asserted that *Texas Instruments* was distinguishable because the language in the *Texas Instruments* agreement also included “in connection with,” making it broader than the language in the MLA in this case. *See* Oral Argument at 9:56–10:51, 12:49–13:21, *Dodocase VR, Inc. v. MerchSource, LLC* (No. 2018-1742), <http://www.cafc.uscourts.gov/oral-argument-recordings>. This minor distinction does not make the reasoning in *Texas Instruments* interpreting very similar language any less applicable to this case.

2018 WL 1475289, at *11. The district court did not abuse its discretion in evaluating irreparable harm.

The third requirement for a preliminary injunction is that the balance of the equities tips in the movant's favor. The district court weighed the alleged harm to Dodocase, described above, against the alleged harm to MerchSource, specifically MerchSource's contention that the requested injunctive relief of withdrawing the PTAB petitions and moving to dismiss the PTAB proceedings would result in their inability to ever pursue PTAB review because of the one-year time bar of 35 U.S.C. § 315(b). *Id.* at *11–12. On appeal, MerchSource raises the same alleged harm of being barred from refiling because of the one-year statutory bar of § 315(b). Appellant's Br. 34. While we acknowledge MerchSource's concern, we find that the district court did not abuse its discretion in determining that the balance of hardships tipped in favor of granting the preliminary injunction.

On the final requirement, whether the preliminary injunction is in the public interest, the district court noted the public interest in enforcing contractual rights and obligations. *See Dodocase*, 2018 WL 1475289, at *12. The district court also considered the fact that MerchSource would be able to challenge the validity of the patents in the district court and that independent third parties could initiate separate PTAB proceedings as relevant to the public interest analysis. *See id.* The district court did not abuse its discretion in determining that the public interest supported granting a preliminary injunction.

We have considered MerchSource's remaining arguments and find them unpersuasive. We conclude that the district court did not abuse its discretion in granting a preliminary injunction on this record. We therefore affirm the district court's grant of the preliminary injunction.

We remand, however, for the district court to modify the preliminary injunction order to provide new deadlines

to take the ordered actions. The district court ordered MerchSource to take the following actions by certain deadlines: “(1) send the email to the PTAB by Sunday March 25, 2018 requesting a conference call to facilitate the withdrawal of the PTAB Petitions, and (2) if the PTAB grants permission to file motions to dismiss the petitions, then file the motions by 12:00 p.m. on April 3, 2018.” *Id.* at *14. These dates have since passed. We remand for the district court to modify the preliminary injunction order to provide new deadlines to promptly take the prescribed actions.

IV

We now turn to MerchSource’s Motion. MerchSource argues that the preliminary injunction and the appeal of the preliminary injunction are moot because Dodocase assigned the rights in the patent to DDC who became the patent owner in the PTAB proceedings. Motion at 5–6. While styled as a “Motion and Observation of Mootness,” MerchSource’s Motion simultaneously asks us to dismiss the appeal for lack of jurisdiction and vacate the district court’s preliminary injunction order. *See id.* at 2.⁴ We cannot vacate the preliminary injunction, as MerchSource asks us to do, unless we have the jurisdiction that MerchSource claims we lack. We conclude that we do have jurisdiction and that the case is not moot. The Motion is accordingly denied.

MerchSource’s Motion does, however, note that the ownership of the patents licensed under the MLA has changed from Dodocase to DDC. MerchSource’s Motion presents this change in ownership only in the context of its

⁴ MerchSource later seemed to concede that the case is not moot when it argued, “[n]otwithstanding mootness, there is still a dispute between Dodocase and MerchSource as to whether the filing of the PTAB proceedings was a breach of the MLA’s forum selection clause.” Motion at 5.

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mootness argument; it does not argue that the change in ownership means that the district court erred in granting the preliminary injunction or that it must be reconsidered or modified.

V

For the foregoing reasons, the district court's grant of a preliminary injunction is affirmed. Our stay of the preliminary injunction is lifted. However, we remand for the district court to modify the preliminary injunction order to provide new deadlines to promptly take the prescribed actions.

AFFIRMED AND REMANDED

COSTS

The parties shall bear their own costs.

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

CERTIFICATE OF SERVICE

I certify that I served a copy on counsel of record on May 20, 2019

by:

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- Fax
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