LAW360

Portfolio Media. Inc. | 111 West 19th Street, 5th Floor | New York, NY 10011 | www.law360.com
Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

# Deploying Forum Selection Clauses To Bar PTAB Challenges

By **Miranda Jones** (March 15, 2022, 5:52 PM EDT)

Miranda Jones

Last month, in Nippon Shinyaku Co. Ltd. v. Sarepta Therapeutics Inc.,[1] the U.S. Court of Appeals for the Federal Circuit held that an exclusive forum selection clause in a confidentiality agreement required all patent validity challenges to be brought in a contractually designated district court.[2]

In effect, the forum selection clause barred the filing of validity challenges as inter partes review proceedings before the Patent Trial and Appeal Board.

Nippon is the latest in a trilogy of Federal Circuit cases addressing the use of forum selection clauses to bar PTAB validity challenges, which also include Kannuu Pty Ltd. v. Samsung Electronics Co. in 2021 and Dodocase VR Inc. v. MerchSource LLC in 2019. Parties seeking to include a forum selection clause for this purpose should carefully evaluate these decisions to negotiate a clause that will best serve their needs.

In the earliest case, Dodocase, the Federal Circuit agreed with the U.S. District Court for the Northern District of California's decision that a forum selection clause in a license agreement barred the filing of PTAB petitions challenging validity, including both IPR and post grant review petitions.[3]

The forum selection clause in Dodocase required that disputes arising out of or under the agreement be brought in certain California courts.[4] The question for the court was whether the PTAB petitions constituted a dispute arising out of or under the license agreement.

Relying on its Texas Instruments Inc. v. Tessera Inc. decision from 2000,[5] the Federal Circuit reasoned:

> 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.[6]

Applying Texas Instruments, the Federal Circuit concluded the validity challenge presented in the PTAB petitions was encompassed, and thus barred, by the license's forum selection clause.[7] The lesson learned from Dodocase is that a broadly worded forum selection clause in a license agreement may be used to bar the filing of PTAB proceedings.

After Dodocase, the Federal Circuit issued opinions in two cases in which the forum selection clause was contained within a confidentiality or nondisclosure agreement rather than a license agreement. The

confidentiality agreement in the first of the two cases, Kannuu, contained a forum selection clause that applied to:

> Any legal action, suit, or proceeding arising out of or relating to this Agreement or the transactions contemplated hereby must be instituted exclusively in a court of competent jurisdiction, federal or state, located within the Borough of Manhattan, City of New York, State of New York and in no other jurisdiction.[8]

While the language of this forum selection clause is similar to the Dodocase clause, the Federal Circuit reached the opposite conclusion in Kannuu.[9] The divergent outcome was not based on any meaningful difference between the respective state contract interpretation laws at issue in the cases. Rather, the difference in outcome resulted from the different agreements at issue — license agreement vs. confidentiality agreement.

Practitioners should note that while a broadly worded forum selection clause may bar the filing of PTAB proceedings in a license agreement or other agreement that directly affects patent rights — assignments, joint development agreements — a similarly worded forum selection clause may not bar the filing of PTAB proceedings in agreements that indirectly impact patent rights, such as confidentiality agreements.

In Kannuu, the Federal Circuit — over U.S. Circuit Judge Pauline Newman's dissent — decided that the forum selection clause did not bar PTAB proceedings. The majority reasoned that an IPR challenge does not arise from or relate to the confidentiality obligations or the contemplated transactions.

The patent owner in Kannuu sought to establish an adequate connection between the confidentiality agreement and the PTAB proceedings, for example arguing that the confidentiality agreement related to a potential license of the challenged patents, which in turn would have invoked the reasoning in Texas Instruments.[10]

The majority, however, rejected the proposed connection as too tenuous. Instead, the majority viewed a determination of whether the forum selection clause encompassed PTAB proceedings to depend on whether the "gist of those claims" was a breach of the contractual relationship.[11] The court explained that:

> an invalidated patent or non-infringement determination does not change, disrupt, or otherwise impact the parties' NDA obligations. Likewise, a finding that a party has breached an NDA is devoid of undertaking any patent-related determinations such as infringement or validity.[12]

Kannuu's holding does not suggest every forum selection clause requires this degree of connection between the scope of the agreement and a potential PTAB proceeding. Rather, Kannuu required such a connection because the forum selection clause at issue required it, with the "arising out of or relating to" language.

Although not a basis of the majority opinion, the challenger's briefing urged a clear statement rule. Interpreting a forum selection clause in a routine confidentiality agreement to bar validity challenges may deviate from the actual intent of the parties, if a clause stems from an inadvertent oversight of an implicit and unexpected effect.

An explicit definition of the validity challenges encompassed by the forum selection clause may be

useful to show a bargained-for agreement and avoid later arguments of surprise or differing intent.

In contrast, the last and most recent case, Nippon, involved a forum selection clause in a confidentiality agreement with an express definition. In Nippon, the clause stated:

> the Parties agree that all Potential Actions arising under U.S. law relating to patent infringement or invalidity, and filed within two (2) years of the end of the Covenant Term, shall be filed in the United States District Court for the District of Delaware.[13]

The agreement also included an express definition of potential actions as including "any patent or other intellectual property disputes ... filed with a court or administrative agency [i.e., the U.S. Patent and Trademark Office]."[14]

In construing the agreement, the Federal Circuit concluded that the plain language of the provision required all validity disputes to be brought in Delaware's district court.[15] Thus the confidentiality agreement barred the PTAB proceedings, even though the PTAB proceedings did not necessarily arise out of the agreement itself.

The Nippon forum selection clause illustrates another aspect of the utility of these provisions. The Nippon forum selection clause had a two-year term.[16] Because of the term length, if district court litigation had been filed during the first year of the term, the challenger's IPR petitions would have been time barred by the time the forum selection clause expired.[17]

In fact, the litigation in Nippon was filed within the first year, triggered by the challenger's filing of IPR petitions before the expiration of the forum selection clause.[18] If the challenger had waited until the expiration of the two-year term, its IPRs would not have been barred by the forum selection clause.[19]

Choosing a shorter term for a forum selection clause could allow potential challengers who anticipate the filing of patent infringement litigation to avoid statutory time bars. In fact, adjustments to the length of the term of a forum selection clause and other factors — such as the forum selected — may incentivize or disincentive the filing of district court litigation.

For example, parties could negotiate a balanced forum selection clause requiring patent infringement litigation to be brought in a forum favored by a challenger in exchange for a challenger agreeing not to file an IPR challenge in the PTAB. There are many ways to refine the bargain embodied in a forum selection clause to serve the parties' needs.

A latent concern with respect to these clauses is the potential relevance of the U.S. Supreme Court's 1969 opinion in Lear v. Adkins.[20]

On one hand, there is a potential argument that a forum selection clause that effectively eliminates a party's right to bring a validity challenge before the PTAB may be considered a form of a no-challenge clause. A no-challenge clause is an agreement not to challenge a covered patent's validity. In effect, it is a contractual surrender of a party's right to bring a validity challenge.

Lear overturned the doctrine of licensee estoppel and announced that public policy favors challenges to patent validity. Lear has since been extended to render no-challenge clauses unenforceable, with certain exceptions. The primary exceptions apply to litigation settlement agreements or consent judgments.[21] There is a potential argument that a contractual provision that impedes the right to bring a validity

challenge must pass Lear scrutiny.

On the other hand, a forum selection clause is a simple, bargained-for agreement between private parties to bring disputes in a specific forum. A key distinction between no-challenge clauses and forum selection clauses is that forum selection clauses do not preclude all validity challenges, only those brought in a particular forum, the PTAB.

The Federal Circuit does not appear to be wrestling with Lear's applicability to forum selection clauses, as Lear is not even mentioned in the Nippon opinion. Nippon nonetheless declares, "it does not follow that it is necessarily against the public interest for an individual party to bargain away its opportunity to [file an IPR]."[22]

But the Federal Circuit is not the only circuit that may hear these disputes, as, per the Texas Instruments court: "[g]eneral contract interpretation is not within the exclusive jurisdiction of the Federal Circuit."[23] At some point other circuits may weigh in on the applicability of Lear to forum selection clauses. In the past, other circuits have applied Lear more zealously.[24]

These cases provide some clarity as to the interpretation and use of forum selection clauses to manage risks associated with PTAB proceedings in agreements other than patent licenses, as well as how disputes stemming from such clauses will likely be resolved.

---

*Miranda Jones is a partner at Porter Hedges LLP.*



[1] Nippon Shinyaku Co, Ltd. v. Sarepta Therapeutics, Inc., 25 F.4th 998 (Fed. Cir. 2022).

[2] Nippon, 25 F.4th 998; Kannuu Pty Ltd. v. Samsung Electronics Co., 15 F.4th 1101 (Fed. Cir. 2021); Dodocase VR, Inc. v. MerchSource, LLC, 767 F. App'x 930 (Fed. Cir. 2019) (unpublished).

[3] 767 F. App'x at 930.

[4] Id. at 932.

[5] 231 F.3d 1325, 1329 (Fed. Cir. 2000)

[6] Dodocase, 767 F. App'x at 934.

[7] Id. at 935 ("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").

[8] Kannuu, 15 F.4th at 1105.

[9] Id. at 1110 ("[T]he district court did not err in concluding that the inter partes review proceedings do not fall within the scope of the NDA's forum selection clause").

[10] Id. at 1107.

[11] Id. at 1110.

[12] Id. at 1108.

[13] Nippon, 25 F.4th at 1002.

[14] Id.

[15] Id. at 1006.

[16] Id. at 1002.

[17] Id. at 1008.

[18] Id. at 1002.

[19] Id. at 1008.

[20] 395 U.S. 653, 671 (1969).

[21] Flex-Foot, Inc. v. CRP, Inc., 238 F.3d 1362 (Fed. Cir. 2001).

[22] Nippon, 25 F.4th at 1007.

[23] Texas Instruments Inc., 231 F.3d at 1329.

[24] Rates Tech., Inc. v. Speakeasy, Inc., 685 F.3d 163, 164 (2d. Cir. 2012) (voiding, under Lear, a no-challenge clause in a settlement agreement entered after accusation of infringement but before any litigation); Massillion-Cleveland-Akron Sign Co. v. Golden State Advert. Co., 444 F.2d 425 (9th Cir. 1971) (finding it "unimportant that . . . the covenant is part of a settlement agreement rather than of a typical patent licensing agreement," suggesting that if such a distinction were recognized it would be "easy to couch licensing arrangements in the form of settlement agreements.").