

Heartland and Lexmark – The Business Impact

Presented by:

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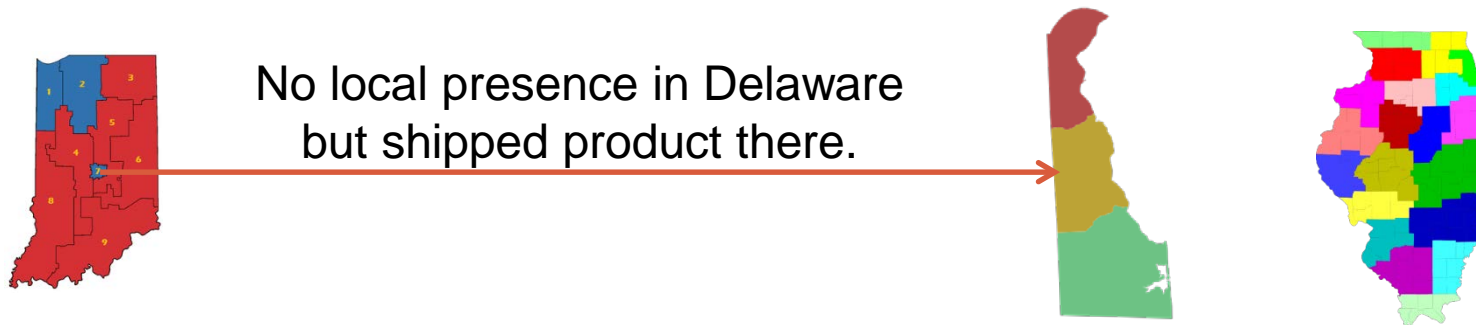
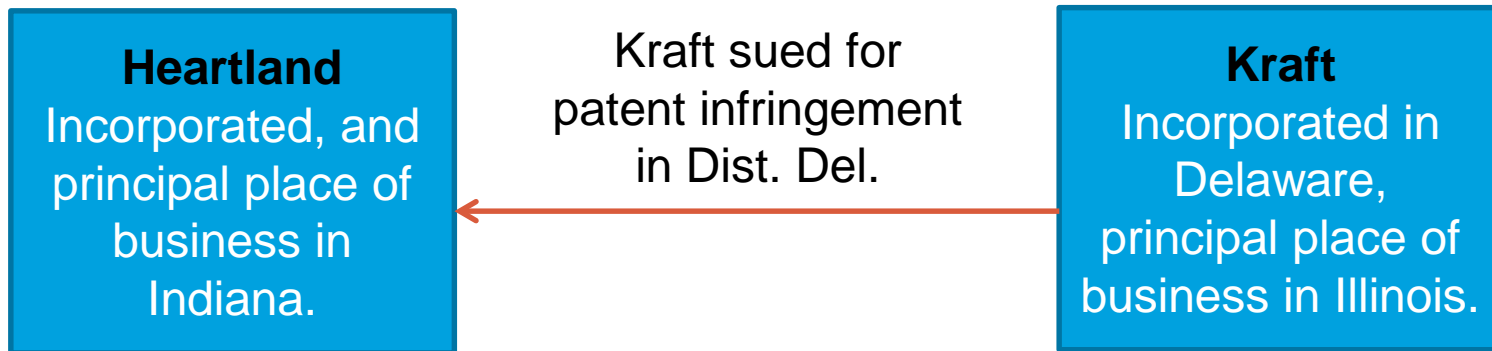
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Why Pick This Topic?

- **Recent Supreme Court Decisions**
 - **TC Heartland**
 - Where might you get sued for patent infringement?
 - How are top patent venues affected?
 - **Lexmark**
 - Can you protect your business model using your patent?
 - Which industries should pay the most attention?
 - What alternative ways can companies protect their business models?

Heartland – Quick Refresh

- **Facts**



Heartland – Quick Refresh

28 U.S.C. § 1400(b) - “Any civil action for patent infringement may be brought in the judicial district where the defendant **resides**, or where the defendant has committed acts of infringement and has a **regular and established place of business.**”

AND

28 U.S.C. § 1391(c) - “For all venue purposes . . . [a corporation] shall be deemed to **reside**, if a defendant, in any judicial district in which such defendant is subject to the court’s **personal jurisdiction** with respect to the civil action in question.”

Heartland – Quick Refresh

- “We reverse the Federal Circuit. In *Fourco*, this Court definitively and unambiguously held that the word ‘reside[nce]’ in §1400(b) has a particular meaning as applied to domestic corporations: It refers only to the State of incorporation.”
- A corporation is subject to venue only where it is incorporated or has a “regular and established place of business.”

Heartland – New Questions

- Foreign Defendants
- ED Tex
- Other top patent venues

Heartland – Foreign Defendants

- The Supreme Court noted that it was not deciding the implications of its ruling with regard to foreign defendants.
- Before TC Heartland, proper venue for patent infringement cases against foreign defendants was any judicial district.
- Consider domestic subsidiaries

Post-TC Heartland Venue – ED Tex.

- ***In re Cray Inc.*, 2017 U.S. Lexis 18398, 2017 WL 4201535 (Fed. Cir. Sept. 21, 2017).**
- **Was proper in the Eastern District of Texas?**
- **The Federal Circuit held that Cray did not have a “regular and established place of business” in the Eastern District of Texas and that the district court *abused its discretion* in finding venue proper in the Eastern District of Texas.**

Post-TC Heartland Venue – ED Tex.

- ***In re Cray* holding: There are three general requirements to whether a corporation has a “regular and established place of business” in a district.**
 1. **There must be a physical place in the district**
 2. **It must be a regular and established place of business**
 3. **It must be the place of the defendant**

Post-TC Heartland Venue – ED Tex.

- **Eastern District of Texas is weakened but still alive**
- **New case filings in the District have dramatically declined**
 - From May 22 to September 19, 2016, Eastern District of Texas had 39.61% of new cases.
 - A year later, from May 22 to September 19, 2017, Eastern District of Texas had 15.04% of newly filed cases.
- **But, Eastern District of Texas is still the second-most sought after venue for patent cases.**
 - “Regular and established place of business” can have teeth for large companies with physical locations in a district. *See, e.g., Prowire LLC v. Apple, Inc.*, No. 17-223, 2017 U.S. Dist. LEXIS 126640, at *14 (D. Del. Aug. 9, 2017) (holding venue proper in Delaware due to presence of Apple store in District).

Post-TC Heartland Statistics – Other Venues

- **Delaware is the new king.**
 - From May 22 to September 19, 2016, the District of Delaware had 12.06% of new cases
 - A year later, from May 22 to September 19, 2017, the District of Delaware had 27.91% of newly filed cases. This is the District with the most newly filed cases.
- **Delaware, however, currently has several judicial vacancies. Until filled, judges may be receptive to motions to transfer venue. See *MEC Res., LLC v. Apple, Inc.*, No. 17-223, 2017 U.S. Dist. LEXIS 149671, at *13 (D. Del. Sep. 15, 2017) (transferring case to Northern District of California, despite previously holding venue was proper, due to court congestion).**

Post-TC Heartland Statistics – Other Venues

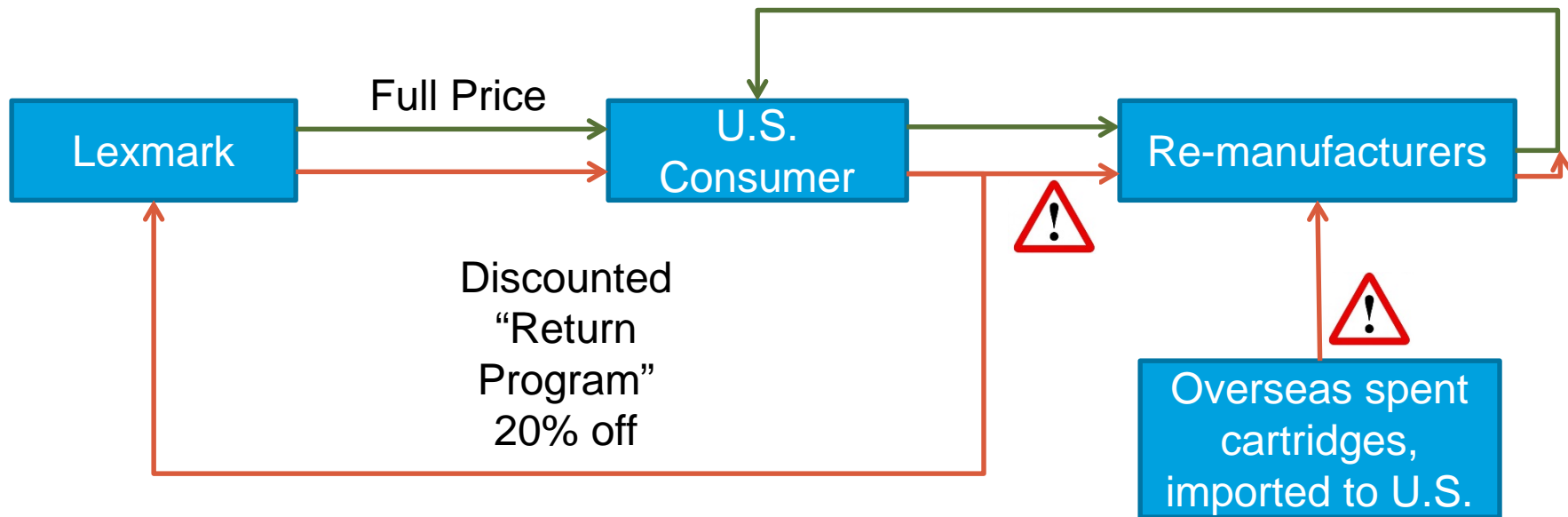
- **The Central District of California (the third most favored venue) has seen a modest increase in its proportion of new case filings (7.99% since TC Heartland compared to 6.50% during the same time frame last year).**
- **The Northern District of California (the fourth most favored venue) have seen a more significant increase (from 2.28% to 6.77% of newly filed cases).**
- **The Northern District of Illinois (the fifth most favored venue) has remained steady (increasing marginally from 5.35% to 5.73%), despite early predictions that its proportion of the volume would increase.**

Business Takeaways

- **Fewer venue options now.**
- **Increased certainty about likely venue for patent suits.**
- **In which jurisdictions does your company have a “regular and established place of business”?**

Lexmark – Quick Refresh

- Lexmark sells printer cartridges using a full price model, and a discounted “return program” where the consumer agreed to return the spent cartridge only to Lexmark.



Lexmark – Quick Refresh Domestic Cartridges

“The single-use/no-resale restrictions in Lexmark’s contracts with customers may have been clear and enforceable under **contract** law, but they do not entitle Lexmark to retain **patent rights** in an item that it has elected to sell.”

“whatever rights Lexmark retained are a matter of the contracts with its purchasers, not the patent law.”

- Exhaustion is where patent law butts up against the common law rule against restraint of alienation of property.

Lexmark – Quick Refresh

Imported Cartridges

- **SCOTUS analogized to the first sale doctrine in copyright law, and ultimately back to the common law doctrine against restraints on alienation.**

“An authorized sale outside the United States, just as one within the United States, exhausts all rights under the Patent Act.”

But, a patentee’s rights with respect to importation are not exhausted when the patentee had nothing to do with the overseas sale.

Lexmark – Quick Refresh Decision

- **An authorized sale by a U.S. patent owner anywhere in the world exhausts patent rights.**
- **But enforcement may still be available under contract law.**

Lexmark Potential Effects

- **Beyond printer cartridges, commentators have expressed some predictions about effects of decision on other industries.**
- **Pharmaceutical industry in particular was subject of *amici* arguments on both sides of the aisle.**
- **International exhaustion could pave the way for importation of cheaper priced drugs from Canada or other countries.**
 - **Proponents of international exhaustion touted this as a benefit, reducing costs of pharmaceuticals in the United States.**
 - **The Pharmaceutical industry has claimed this will lessen research and development budgets and reduce innovation.**

***Lexmark* Potential Effects**

- ***Lexmark* could expand the market for refurbished medical devices**
 - **Sterilization of “single use” medical devices for re-use was a business model previously clouded by potential infringement claims. The cloud has been removed and presents a business opportunity.**
 - **However, many medical device manufacturers claim that the practice could endanger public health as devices may not be effective or may not be sterilized properly. Medical device manufacturers are further concerned that reputation and goodwill could be harmed if their devices are re-used.**

***Lexmark* Potential Effects**

- **Agricultural industry has expressed concerns about effect of decision.**
 - **Prices in developing countries may have to be raised, lowering exports.**
 - **If prices not raised, industry worries that importation will hurt domestic sales.**
 - **Industry claims that decision will reduce investment in creation of new plant varieties with novel characteristics.**

Questions?



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Who Wants Credit?

Complete the sign in sheet included in the reminder email (sent yesterday) and return to hubble.michelle@dorsey.com.

We will send CLE Certificates to those who return the form.

How Do I Learn More?

interactive dialogue

Mitigating IP Issues in China

January 24, 2018
9 AM Pacific / 12 PM Eastern

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