

IP NEWSLETTER

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SUPREME COURT HITS RESET ON PATENT VENUE LAW IN TC HEARTLAND

By [Hector G. Gallegos](#) and [Joshua A. Hartman](#)



In the recent *TC Heartland LLC v. Kraft Foods Group Brands LLC* decision, the Supreme Court reversed nearly thirty years of patent venue law and held that a domestic corporation resides only in its state of incorporation for purposes of patent venue.

Based on this holding, domestic corporations now face patent infringement lawsuits only in their states of incorporation or in judicial districts where they have a regular and established place of business (e.g., a corporate headquarters) and have committed alleged acts of infringement.

Previous Federal Circuit case law provided venue for patent infringement claims anywhere the district court had personal jurisdiction over the defendant. Under that case law, patent infringement plaintiffs could file lawsuits against companies with nationwide distribution networks practically anywhere in the United States. This had the effect of concentrating patent litigation in a handful of district courts—most prominently the Eastern District of Texas. The new Supreme Court decision creates a more restrictive regime that likely eliminates venue in the Eastern District of Texas and several other patent litigation hot zones in most cases.

BACKGROUND

The May 22 decision involves straightforward facts but travels a winding road of statutory amendments and evolving case law. The accused infringer is TC Heartland, an Indiana corporation headquartered in Indiana that manufactures flavored drink mixes. The plaintiff is its direct competitor, Kraft Foods, a Delaware corporation with its principal place of business in Illinois. Kraft Foods sued TC Heartland for patent infringement in the District of Delaware. TC Heartland's sole contact with that district is shipping allegedly infringing products to Delaware; TC Heartland is not registered to conduct business in Delaware, nor does it have any other presence there.

TC Heartland moved to dismiss or transfer venue to the Southern District of Indiana. The motion relied on a 1958 Supreme Court decision, *Fourco Glass Co. v. Transmirra Products Corp.*, which concluded that, under the patent venue statute (28 U.S.C. § 1400(b)) a domestic corporation “resides” only in its state of incorporation.

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The district court denied TC Heartland’s motion based on the Federal Circuit’s 1990 decision, *VE Holding Corp. v. Johnson Gas Appliance Co.*, which concluded that a 1988 amendment to the general venue statute (28 U.S.C. § 1391(c)) altered patent venue law as well. Under the 1988 amendment, corporate defendants “reside” in any judicial district in which they are subject to personal jurisdiction. Per *VE Holding*, because the 1988 amendment purports to define “resides” “for purposes of venue under this chapter,” the patent venue statute incorporates the amendment’s more expansive definition.

On appeal from the district court’s denial of TC Heartland’s motion, the Federal Circuit reaffirmed *VE Holding*. The appellate court also concluded a 2011 amendment to Section 1391 did not affect *VE Holding*. Under that amendment, Section 1391 “shall govern the venue of all civil actions brought in district courts of the United States” “except as otherwise provided by law,” and the statute’s definition of “resides” applies “[f]or all venue purposes.”

THE SUPREME COURT’S DECISION

In a unanimous opinion by Justice Thomas, the Supreme Court reversed.¹ It traced the path of patent venue law back to the Judiciary Act of 1789, stopped off in 1897 for Congress’s creation of a patent-specific venue statute, and then journeyed to the 1948 recodification of that statute as Section 1400(b), which remains the patent venue statute’s current form. The Court then revisited its 1958 opinion in *Fourco*, noting that it had “squarely rejected” applying the general venue statute’s definition of residence to the patent venue statute.

Next, the Court considered whether the 1988 amendments to the general venue statute altered the meaning of Section 1400(b). It concluded that Section 1391 bears no indication that Congress intended to change the patent venue law under *Fourco*. The Court explained that the 1988 amendment’s extension of Section 1391 to “all venue purposes” was no such indication, as the version of the statute at issue in *Fourco* contained similar language. The Court noted that this language was even less troubling under the current general venue statute, which includes a saving clause rendering it inapplicable when “otherwise provided by law.” Finally, the Court observed that the 2011 amendment deleted “under this chapter”—the language on which the Federal Circuit had relied in *VE Holding*—from the general venue statute.

TAKEAWAYS

TC Heartland significantly alters the patent litigation landscape. The decision’s most obvious consequence is its effective curtailment of the Eastern District of Texas—the most popular forum for patent infringement lawsuits and the site of more than a third of all new patent case filings in

2016—as the proper venue in cases against many domestic corporations. The Eastern District of Texas’s popularity among patent-plaintiffs provoked no small amount of discourse, yet Justice Thomas’s opinion does not discuss the public policy implications of the Court’s decision.

A number of other implications flow from *TC Heartland*:

- The District of Delaware and Northern District of California, already popular forums for new patent cases, are likely ascendant as preferred destinations for patent owners.
- The Eastern District of Texas likely will see an increase in motions to dismiss for improper venue.
- The Eastern District of Texas may remain a viable venue in patent lawsuits against *foreign* corporations. The Supreme Court declined to reach the question of foreign corporate defendants in *TC Heartland*, and stated that it was not expressing any opinion on its previous decision in *Brunette Machine Works v. Kockum Industries*. The Court concluded in that case that the venue rule for foreign residents under the then-existing statutory regime applied in patent infringement cases.

¹ Justice Gorsuch took no part in the consideration or decision of the case.

SUPREME COURT HOLDS THE SLANTS CAN BE REGISTERED AS A TRADEMARK: DISPARAGEMENT CLAUSE VIOLATES THE FIRST AMENDMENT

By [Jennifer Lee Taylor](#) and [Sabrina Larson](#)



On June 19, 2017, the Supreme Court brought closure to Simon Tam’s seven-year legal journey seeking to obtain a federal trademark registration for his band name, THE SLANTS. The Court held in *Matal v. Tam* that the Lanham Act’s ban on disparaging trademarks violates the Free Speech Clause of the First Amendment.

Mr. Tam is the founder of the Asian-American dance-rock band The Slants. Mr. Tam first applied to register the mark THE SLANTS in 2010. The United States Patent and Trademark Office (PTO) refused his registration on the basis that the examining attorney found it to be disparaging to people of Asian descent.

Section 2(a) of the Lanham Act states: a mark may be refused registration if it “[c]onsists of or comprises . . . matter which may disparage . . . persons . . . or bring them into contempt, or disrepute.” 15 U.S.C. § 1052(a). Whether a mark is disparaging is determined by a two-part test: (1) what the likely meaning is of the matter in question, considering both dictionary definitions and the manner in which the mark is used in the market; and (2) if the meaning is found to refer to identifiable persons, whether the meaning may be disparaging to a “substantial composite of the referenced group.”

The Court stated that “Slants” is a derogatory term for persons of Asian descent. The members of Mr. Tam’s band are Asian American. Mr. Tam and his band, however, believe that by taking the term as the name of their band, they will help to “reclaim” the term and “drain its denigrating force.”

Mr. Tam appealed the refusal to register THE SLANTS as a trademark. The Supreme Court granted review on the issue of whether the non-disparagement clause in Section 2(a) of the Lanham Act violates the First Amendment because it bans speech on the grounds that it expresses ideas that cause offense.

The Court rejected the government’s three arguments that the heightened scrutiny standard of the First Amendment does not apply.

First, the Court rejected the government’s argument that trademarks are government speech. The Court stated that it is “far-fetched” to suggest that the content of a registered trademark is government speech and that, if it were, “the Federal Government is babbling prodigiously and incoherently.” The Court reasoned that there is no evidence that the public associates the contents of trademarks, unlike license plates, with the government. Furthermore, a finding that trademark registrations are government speech could implicate copyright registrations, potentially eliminating First Amendment protection for registered copyrighted works. The Court reasoned that copyrights could not be distinguished on the basis of being expressive, as the government argued, because trademarks too often have expressive content, as with THE SLANTS trademark.

Second, the Court rejected the government’s argument that trademark registration is a government subsidy in which the government can express a particular viewpoint. The PTO does not pay those seeking registration. Rather, applicants pay the government for application and maintenance fees.

Third, the Court rejected the government’s proposed new “government-program” scenario, reasoning that it was merely a merger of the previous two doctrines. Ultimately, the Court reasoned that the disparagement clause “cannot be saved” by analyzing it as any type of government program in which content- or speaker-based restrictions are permitted.

The Court did not decide whether trademark registration is commercial speech, because it found that the disparagement clause failed both the lower scrutiny standard for commercial speech and the heightened scrutiny standard for non-commercial speech. The government’s interests boiled down to preventing speech expressing ideas that offend, but the Court found that the disparagement clause is not narrowly tailored to meet this goal. The Court said, “[I]t is not an anti-discrimination clause; it is a happy talk clause.”

The Court also did not decide how the First Amendment affects other proscriptions in Section 2(a) of the Lanham Act—namely, the prohibition against registering marks that are immoral or scandalous, but not necessarily disparaging to a particular group. Are all scandalous trademarks viewpoint-neutral, or does a refusal to register such marks implicate First Amendment rights? We can expect to see applicants claiming violations of their First Amendment rights when arguing against refusals of such marks in the future.

SUPREME COURT HOLDS THAT SALE BY PATENTEE EXHAUSTS PATENT RIGHTS REGARDLESS OF RESTRICTIONS OR LOCATION OF SALE

By [Paul E. Jahn](#), [William I. Schwartz](#), [Hector G. Gallegos](#), and [Lincoln C. Lo](#)



In *Impression Products, Inc. v. Lexmark International, Inc.*, the Supreme Court held that a patentee’s decision to sell a product exhausts all of its patent rights in that item, regardless of any restrictions the patentee purports to impose or the location of the sale. 581 U.S. ____ (2017), slip. op. at 2. The decision overturns Federal Circuit case law holding that (1) a patentee may bypass the exhaustion doctrine by selling an item under an express restriction on the purchaser’s right to use or resell the product, and (2) a patentee does not exhaust its rights under United States patents when selling its product abroad. *Id.* at 1-2. Chief Justice Roberts delivered the opinion for the Court, in which Justices Kennedy, Thomas, Breyer, Alito, Sotomayor, and Kagan joined. Justice Ginsburg filed an opinion concurring with the decision regarding restrictions

on sales, but dissenting with respect to the territorial exhaustion issue. Justice Gorsuch took no part in the consideration or decision of the case.

BACKGROUND

Lexmark manufactures and sells printers and toner cartridges covered by multiple Lexmark patents in the United States and foreign markets. Toner cartridges are sold under two programs: a “regular” program, under which cartridges are sold at full price and without restriction on resale or reuse of the cartridge; and a “return” program under which cartridges are sold at a 20% discount, but subject to single-use and no-resale restrictions. Impression is a small business that acquires spent toner cartridges originally sold in the United States and abroad for refilling and sale in the United States, including restricted return program cartridges that are altered by microchip replacement to circumvent Lexmark enforcement. Lexmark sued Impression for patent infringement in connection with both United States and foreign toner cartridges. Impression argued that Lexmark’s patent rights had been exhausted by Lexmark’s first sale of the cartridges both domestically and abroad. *Id.* at 2-3.

In *Lexmark International, Inc. v. Impression Products, Inc.*, 816 F.3d 721 (Fed. Cir. 2016), the en banc Federal Circuit held that (1) the sale of an article under clearly communicated and otherwise lawful restrictions on use and resale avoids patent exhaustion and preserves the patentee’s rights to pursue infringement remedies both against the first buyer and downstream purchasers with knowledge of the restrictions, and (2) a patentee’s or licensee’s foreign sales of a patented article do not exhaust the United States patent rights in the article sold, even if no reservation of those rights accompanies the sale. 581 U.S. ____ (2017), slip. op. at 4-5.

The Supreme Court granted certiorari to consider the Federal Circuit’s decisions with respect to both domestic and international exhaustion and reversed. *Id.* at 2, 18.

With respect to the single-use/no-resale restrictions in Lexmark’s contracts with customers, the Court held that while these restrictions may have been enforceable under contract law, the patent exhaustion doctrine does not entitle a patentee to retain patent rights in an item it has elected to sell. The Court relied principally on the common law’s well-established refusal to permit restraints on the alienation of chattels and a string of the Court’s decisions in the area of patent exhaustion culminating recently in *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008). 581 U.S. ____ (2017), slip. op. at 6. Importantly, the Court corrected the Federal Circuit’s reasoning in the underlying appeal, explaining that the exhaustion doctrine is not a presumption about authorization that comes along

with the sale of a product, but is instead a limit on the scope of the patentee’s rights and thus may not be avoided by contract. *Id.* at 9-10. The Court’s decision has the effect of overruling the Federal Circuit’s long-questioned and much-criticized decision in *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), which held that exhaustion could be avoided by conditioning the sale on restrictions as to post-sale use or resale.

The Court discussed the impact of its holding on sales by licensees, observing that so long as a licensee complies with the license when selling an item, the patentee has, in effect, authorized the sale. As is the case with sales by patentees, an authorized sale by a licensee exhausts the patent, though the Court noted that a license may require the licensee to impose a contractual restriction on purchasers. On the other hand, consistent with the Court’s decision in *General Talking Pictures Corp. v. Western Elec. Co.*, 304 U.S. 175, *aff’d on reh’g*, 305 U.S. 124 (1938), where a licensee does not comply with the conditions of a license in selling an item, the patentee may bring an infringement suit against the licensee or the purchaser. 581 U.S. ____ (2017), slip. op. at 11-13.

With respect to sales abroad, the Court held that an authorized sale outside the United States, just as one within the United States, exhausts all rights in the patent, again noting the common law’s refusal to permit restraints on alienation of chattels and the Court’s recent precedents. The Court cited, among other decisions, its recent holding in *Kirtsaeng v. John Wiley & Sons, Inc.*, 568 U.S. 519 (2013), which found international exhaustion in the context of copyright law. 581 U.S. ____ (2017), slip. op. at 13-14. The Court’s decision overruled the Federal Circuit’s blanket rule that foreign sales do not trigger exhaustion, announced in *Jazz Photo Corp. v. International Trade Comm’n*, 264 F.3d 1094 (Fed. Cir. 2001).

IMPORTANCE OF THE DECISION

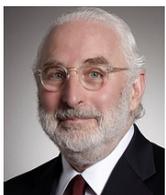
The Federal Circuit’s decision in *Lexmark* created tension with the Court’s recent authority on intellectual property exhaustion announced in *Quanta* and *Kirtsaeng*, so the result in this case is not unexpected.

The Court’s decision will be viewed by many, especially in the electronics industry, as relieving a great deal of uncertainty as to whether the purchase of patented components in the worldwide market exhausts the patents of manufacturers and their licensors. These purchasers will gladly welcome the decision and concur with the Court’s observation that “extending patent rights beyond the first sale would clog the channels of commerce, with little benefit from the extra control that the patentees retain.” 581 U.S. ____ (2017), slip. op. at 7-8.

On the other hand, the decision may prove problematic for companies that have a strong interest in differentiated downstream licensing models, such as in the pharmaceutical industry. Licensing models built around field-of-use licenses now face the challenge of how to protect against the use and resale of products that are sold by the licensee under authorization within the designated field, but are used or resold downstream into other, unauthorized fields. The Court's decision suggests that the exhaustion doctrine is absolute and that infringement remedies will not be available against such downstream purchasers, but leaves open the possibility of contractual remedies for breach of field restrictions. Fashioning appropriate contractual restrictions and mechanisms for successfully imposing such restrictions on downstream purchasers that are not in privity with the patentee or licensee will require creativity and discipline in commercial dealings.

PHOTOGRAPH-BASED PUBLICITY RIGHTS FOLLOWING MALONEY

By [Paul Goldstein](#) and [Joyce Liou](#)



The Ninth Circuit's decision earlier this year in *Maloney v. T3Media, Inc.*, 853 F.3d 1004 (9th Cir. 2017), has further complicated the already muddled

intersection between the right of publicity and U.S. copyright law. The case involved right of publicity claims brought by two former NCAA student-athletes who were depicted in photographs that the defendant distributed. The Ninth Circuit Court of Appeals, affirming the district court, held that section 301 of the Copyright Act preempted the claims because the images were embodied in copyrighted works and T3Media's use essentially duplicated exclusive rights granted by the Act. In effectively conflating section 301's three separate conditions for preemption into one, the court departed not only from Congress's express intentions for copyright preemption, but also, in one respect, Ninth Circuit precedent.

Under section 301 of the Copyright Act, a state law claim will be preempted if three conditions are met: (1) the work of authorship subject to state law protection is fixed in a tangible medium of expression, (2) the work comes within the subject matter of copyright as specified by sections 102 and 103 of the Act, and (3) the rights asserted in the work of authorship are equivalent to any of the exclusive rights granted by section 106 of the Act. 17 U.S.C. § 301(a). If any one of these conditions is not met—for example, a

public performance claim respecting a choreographic work that is not fixed in a tangible medium—the state law claim will remain intact, even though the work comes within the subject matter of copyright and the right sought to be enforced is equivalent to one of copyright's exclusive rights.

In *Maloney*, the plaintiffs alleged that T3Media commercially exploited their names and likeness, without their consent, in selling photographs that captured the plaintiffs in the 2001 NCAA Division III championship game. The photographs were part of the NCAA Photo Library, which T3Media contracted with the NCAA to host and license, and were made available for download by customers who paid a \$20 to \$30 license fee and agreed to “use a single copy of the image for non-commercial art use.” 853 F.3d at 1008. T3Media was not alleged to have used plaintiffs' names or likeness in connection with the advertising or sale of any merchandise, and its only commercial use was its licensing of the photographs.

Following earlier Ninth Circuit authority, *Maloney* began its preemption analysis by conflating the first and second conditions of section 301. Citing precedent, the court noted that the Ninth Circuit has adopted a two-part test to determine whether a state law claim is preempted by the Act. *Id.* at 1010. With respect to the first part, the court observed that the “subject matter of copyright” embodies works of authorship fixed in any tangible medium of expression, thereby incorporating the fixation requirement in the subject matter analysis. *Id.* at 1011. The court then held that the photographs in *Maloney* were “fixed” under section 101 of the Copyright Act. *Id.*

The court departed from Ninth Circuit precedent, however, in treating the persona depicted in a copyrighted work as a work of authorship coming within copyright subject matter. The Ninth Circuit had previously held in *Downing v. Abercrombie & Fitch*, 265 F.3d 994 (9th Cir. 2001), that a right of publicity claim based on surfing photographs was not preempted under section 301 of the Copyright Act because “[a] person's name or likeness is not a work of authorship within the meaning of 17 U.S.C. § 102.” *Downing*, 265 F.3d at 1004. In the context of the *Downing* plaintiffs' claim, the Ninth Circuit noted: “This is true notwithstanding the fact that Appellants' names and likenesses are embodied in a copyrightable photograph.” *Id.* (emphasis added).

Following *Downing*, the Ninth Circuit could have held that the claims in *Maloney*, which, like those in *Downing*, sought to protect the plaintiffs' right of publicity in copyrightable photographs, were not preempted under section 301 because the subject matter of the claims did not fall within the subject matter of copyright. Rather than follow the rationale of its earlier decision, however, the Ninth Circuit struck out on a different path that effectively

annexed the third condition—equivalent rights—to the first two, so that the state law claim would be preempted if that condition alone was met.

To analyze whether the subject matter of the *Maloney* claims fell within the subject matter of copyright, the court started by noting that the claims derived from the licensing of copyrightable photographs. Accordingly, the court treated the “subject matter” of the claims as the photographs, not the plaintiffs’ personas, which the court treated as their “content.” *Maloney*, 853 F.3d at 1011. The court then examined its precedents and noted that the “pertinent distinction” in whether right of publicity claims are preempted is whether they involve the misuse of one’s persona on merchandise or in advertising. *Id.* at 1012-1016. Since T3Media did not use the plaintiffs’ persona in connection with merchandise or advertising—which presumably would have exonerated the claim from preemption—the dispute came down to whether plaintiffs had alleged any misuse “independent of the display, reproduction, and distribution of the copyrighted material in which they are depicted.” Because they had not, the court concluded that the plaintiffs’ claims were equivalent to copyright and thus preempted under section 301. *Id.* at 1019.

In departing from the Act’s threefold conditions for preemption, *Maloney* has company in earlier Ninth Circuit decisions. But in further reducing those conditions to one—whether the state law right in issue is equivalent to the rights granted by section 106—the court has departed from Ninth Circuit authority. *Maloney* sought to distinguish *Downing* on the ground that the *Downing* photographs were used in a catalog to advertise Abercrombie’s merchandise, while those in *Maloney* were not put to an advertising use. But that distinction bears only on the third of section 301’s conditions for preemption, and it does not overcome the Ninth Circuit’s prior holding in connection with the second condition, that a persona—the subject matter of a right of publicity claim—is not a work of authorship that is the subject matter of copyright.

To be sure, the line between the subject matter of copyright (a photograph of an individual) and the subject matter of the right of publicity (the persona reflected in that photograph) may be exquisitely thin—too thin, some might argue, to justify exclusion from section 301’s preemptive thrust. But the state laws that are subject to section 301 encompass far more than the right of publicity, and it seems likely that the approach taken in *Maloney* will be applied to those laws. This raises the possibility that state law claims respecting works such as trade secrets that may fall outside the subject matter of copyright, or are not tangibly fixed, will be subject to preemption, even though the express statutory plan was to exempt them.

UNIFIED PATENT COURT— UNEXPECTED ROADBLOCKS AHEAD IN GERMANY

by [Wolfgang Schönig](#) and [Holger Kastler](#)



On June 12, 2017, the German Federal Constitutional Court (FCC) asked the German legislature to postpone the ratification of the legislation

relating to the UPC Agreement and related acts (the UPC Package) and to put on hold the execution of implementing legislation for the UPC Package by the president of the Federal Republic of Germany. The Office of the President announced that he will comply with this request. This is yet another major setback after the Preparatory Committee of the UPC recently published a statement announcing that the timetable for the start of the UPC Agreement provisional application period and target date for entry into operation of the UPC, envisaged for December 1, 2017, would have to be postponed—presumably due to the uncertain outcome of the ratification procedure in the UK in the context of BREXIT.

The background of the request from the FCC is a constitutional complaint (*Verfassungsbeschwerde*) and a parallel request for interim measures (*einstweilige Anordnung*) that was filed by an unknown person with the FCC in Germany, presumably alleging violations of the principle of due process and the rule of law. The complaint is not yet publically available, and the FCC has not published any written decision at this stage. A spokesperson to the FCC, however, recently emphasized that the request to the president shall not be interpreted as an indication that the envisaged implementation of the UPC Package into German law is unconstitutional. It is rather aimed at giving the Court sufficient time to consider the case. While certain commentators in Germany have already expressed strong views that the complaint will ultimately be dismissed, this rather unusual request by the FCC to the president of the Federal Republic of Germany implies that the Court does not consider the complaint to be meritless on its face.

The new complaint may relate to four other complaints pending at the FCC since 2010, 2013, and 2016. These complaints concern certain aspects of the European Patent Convention (EPC), including the question of whether there has been sufficient judicial review of the decisions of the Board of Appeals (BoA) of the European Patent Organization (EPO). As the German legislation implementing the UPC Package in part refers to the EPO system, the same issues

may now need to be considered for the implementation of the UPC Package into German law. Depending on the actual contentions made by the unknown claimant, it remains to be seen whether the FCC will combine all pending proceedings or decide on them separately.

The execution of the relevant legislation, which already passed the two legislative chambers in Germany, the *Bundestag* and the *Bundesrat*, by the president of the Federal Republic of Germany was the last—and merely formalistic—step implementing the UPC Package into German law. Given the bumpy ratification process in the UK, the execution by the German president was not a priority item—but it was expected to happen prior to September 2017. As the claimant has asked the FCC to

order interim measures, the Court is now commonly expected to render a decision within the next three to six months. However, as the spokesperson to the Court mentioned that the case raises complex issues, it remains to be seen when the Court will be ready to make a decision. In any event, the four earlier complaints are expected to be decided later this year—presumably.

The two remaining countries to ratify the UPC Package for the UPC system to come into effect are the UK and Germany. While the delay of the UK ratification procedure as a result of BREXIT is commonly considered to be a “political” and ultimately manageable issue, the case now pending before the FCC may potentially bring up fundamental legal issues that could derail the entire project.

The role of the general counsel has increased in importance in the last several years, both in terms of scope and responsibilities within the corporate suite. There's plenty to keep a GC up a night, whether it's assessing and mitigating risk, managing to budget, or enabling the business to meet its strategic objectives.

To increase awareness of the myriad challenges faced by law departments today, Morrison & Foerster and ALM Intelligence have partnered on the publication of the **General Counsel Up at Night Index and Report**. Our shared aim is to shed light on the issues of greatest concern among general counsel and, in the longer term, to create a benchmark of those issues and to track the evolution of how law departments address them.

Check out the findings [here](#).

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