

Major U.S. court decisions change patent landscape for Canadian companies

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In this Update

- A pair of recent U.S. Supreme Court decisions in patent cases have the potential to alter the risk landscape for cross-border commercialization.
- One case makes it harder to sue U.S. companies in patent-friendly venues, but a Canadian company can still be sued for patent infringement anywhere in the U.S.
- Another case demonstrates that a U.S. patent is not infringed where a product sold by the patentee abroad is exported to the U.S.
- U.S.-facing Canadian companies should consider these decisions to enable them to seize commercial opportunities while minimizing U.S. patent infringement risk.

For many Canadian technology companies, the United States market is the most commercially important, yet it can be fraught with the risk of being sued for patent infringement, whether by a competitor or a non-practicing entity.

Recent U.S. Supreme Court intellectual property cases have garnered considerable attention. Of particular interest to Canadians are two recent patent decisions relating to venues that can hear patent lawsuits and exhaustion of patent rights. These decisions have the potential to dramatically alter the risk landscape for cross-border commercialization, presenting both opportunities and risks for Canadian companies.

A Canadian company can be sued for patent infringement anywhere in the U.S.

The first case of particular interest to Canadians deals with the issue of where a defendant can be sued for patent infringement. For over a decade, the Eastern District of Texas (EDTX) has been a preferred venue (i.e., location) for bringing patent infringement actions because it was perceived as favouring patentees.^[1] Sometimes called the “rocket docket,” EDTD is known for speeding cases along to jury trials, where patentees have higher success rates than in other venues. EDTD accounted for 40% of patent lawsuits filed in 2015.^[2] For Canadian technology companies, the spectre of being hauled into EDTD elevated the level of patent risk and even captured the attention of Canada’s Competition Bureau.

The Supreme Court’s May 2017 decision in *TC Heartland LLC v Kraft Food Brands LLC* (Docket No. 16-341) alleviates some of the concerns surrounding opportunistic litigation in the EDTD,

as it severely restricts the venue in which patent infringement suits may be filed. In this case, the Court defined the word “resides” in the statutory provision governing patent venue^[3], which provides that an “action for patent infringement may be brought in the judicial district where the defendant resides.” The court held that a domestic corporation “resides” only in its state of incorporation. This decision reversed nearly three decades worth of patent venue jurisprudence, which previously held that a defendant could be sued in any district in which they were subject to the court’s personal jurisdiction, a much lower bar.

Canadian companies may be breathing a sigh of relief alongside their American counterparts. However, this would be premature. *The Court specifically declined to comment on how the ruling would impact foreign corporations.* As the law now stands, foreign defendant corporations can be sued in *any* judicial district. Foreign corporations with subsidiaries in the U.S. may attempt to argue that actions in undesirable venues should be transferred to the location of the subsidiary. However, courts may not be receptive to this approach as they typically defer to the plaintiff’s choice of forum. In the meantime, U.S. patentees will continue to sue foreign entities to obtain favourable rulings on their patents in preferred venues such as EDTX.

A patentee cannot sue for U.S. patent infringement even where terms of sale are violated

The second case, *Impression Products, Inc. v Lexmark International Inc.* (Docket No. 15-1189), clarifies U.S. law around the doctrine of patent exhaustion. According to this doctrine, the authorized sale of a patented item exhausts a patentee’s rights to the item, and serves as a defence to patent infringement. The issue in the *Impression Products* case was whether a buyer infringed the patent when it failed to abide by restrictions imposed on it during the purchase of a patented product.

The Supreme Court held that regardless of express post-sale restrictions, the plaintiff had “exhausted” all of its patent rights once it had sold the product, for both domestic and international sales. A sale transfers title to the purchaser, who may then choose to use the product as they see fit. Note that this ruling also applies to authorized sales outside of the U.S., such that a sale in Canada also exhausts U.S. patent rights.

This decision presents both opportunities and risks for businesses with a cross-border presence. Since the sale of a patented product in Canada exhausts U.S. patent rights, a purchaser of a Canadian product can resell that product in the U.S. without exposing itself to patent infringement risk. Businesses should keep this point in mind when pricing their products for sale outside the U.S., as grey market importation of patented products may become more common.

Absent a patent remedy, sellers of patented articles must now rely more heavily on restrictive license and/or sale agreements to create post-sale restrictions on use and resale. However, patentees will be limited in suing only *those who were parties to the contract*, rather than any and all downstream users. Such agreements will often be commercially unpalatable and will be especially difficult to introduce for new products still at an early stage of market penetration.

A good time to take stock

In view of these important recent decisions, now is as good a time as any for Canadian companies doing business in the U.S. to evaluate U.S. patent risks, opportunities and

strategies. In particular, patent risk should be considered in determining corporate structure and in structuring commercial licensing and sale contracts.

For Canadian companies seeking to manage cross-border patent risk, contact Nathaniel Lipkus at (416) 862.6787 or nlipkus@osler.com.

[1] Jonas Anderson, "Court Competition for Patent Cases" (2015) 163:3 U Pa L Rev 651.

[2] Brian J Love & James Yoon, "Predictably Expensive: A Critical Look at Patent Litigation in the Eastern District of Texas" (2017) 20:1 Stan Tech L Rev 1.

[3] 28 U.S.C. §1400 (b).