

INSIGHTS

Supreme Court Delivers a Jolt to Patentees in Medtronic

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Yesterday, in *Medtronic, Inc. v. Mirowski Family Ventures, LLC*, 571 U.S. ____ (2014), the United States Supreme Court unanimously held that a patentee has the burden of proving infringement in a declaratory judgment suit brought by a licensee. As a result of *Medtronic*, patentees should (1) take great care in accusing licensees of failing to pay royalties on certain products as it may result in a licensee forcing the patentee to prove infringement by bringing a declaratory judgment action against the patentee, and (2) ensure that license agreements address situations when a licensee files a declaratory judgment action.

The facts

Mirowski Family Ventures, LLC (Mirowski) owns certain patents claiming implantable heart stimulators, of which Medtronic became a sublicensee in 1991. In 2007, Mirowski notified Medtronic in which it identified seven Medtronic products that Mirowski believed violated several patent claims. Medtronic disagreed. According to the sublicense agreement, if after having received written notice of infringement, Medtronic could choose to either cure the nonpayment by paying the royalties owed, or seek a declaratory judgment action challenging infringement and accumulate the disputed royalties in an escrow account. Medtronic chose the latter.

The dispute

When Medtronic filed its declaratory judgment action, Mirowski argued that Medtronic had the burden of proving noninfringement as Medtronic was a licensee and a plaintiff. The Federal District Court ruled that Mirowski, as the patentee, had the burden of proving infringement. After a bench trial, the District Court ruled that Mirowski failed to meet its burden of proof. On appeal, the Court of Appeals for the Federal Circuit disagreed and instead ruled that in a declaratory judgment action brought by a licensee, the burden shifts to the licensee to prove noninfringement and the patentee is foreclosed, due to a license agreement, from asserting an infringement counterclaim. Medtronic appealed to the Supreme Court.

The Supreme Court

The Supreme Court unanimously disagreed with the Federal Circuit because of “[s]imple legal logic.”¹ Slip op. at 6. In reaching this conclusion, the Supreme Court relied on three legal propositions. First, the Supreme Court relied on its holding in *Agawam Co. v. Jordan*, 7 Wall. 583, 609 (1869) that the burden of proving infringement generally rests upon the patentee. *Id.* Second, the operation of the Declaratory Judgment Act is to be only procedural, leaving substantive rights unchanged. Slip op. at 6-7. And third, the burden of proof is a substantive aspect of a claim.² Slip op. at 7.

So What Now

First, patentees should take great care when corresponding with its licensees. Any assertion that a licensed patent covers a product or process sold by the licensee may be sufficient ground for the licensee to file a declaratory judgment action in which the patentee would have the burden of proving infringement. Second, although it is still unclear to what extent, if any, parties can contractually dictate what will occur in the event a licensee files a declaratory judgment action, patentees should consider adding provisions in license agreements that would address such situations.

¹ The Supreme Court first answered a question brought by an *Amicus* whether the Federal Circuit had jurisdiction to hear the case. The Supreme Court held that a “hypothetical threatened action is properly characterized as an action ‘arising under an Act of Congress relating to patents.’ 28 U.S.C. §1338(a).” Slip op. at 6.

² The Supreme Court also rejected the Federal Circuit’s proposed burden of proof shifting for practical considerations. According to the Supreme Court, there would be confusion. On the one hand a licensee, bringing a declaratory judgment action seeking to invalidate a licensed patent, may fail to meet its burden of proving noninfringement. On the other hand, the patentee may fail to meet its burden of proving infringement of a third party selling the same device.