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Keeping Current

Medtronic, Inc. v. Mirowski Family Ventures, LLC, 134 S. Ct. 843 (2014)

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On January 22, 2014, the U.S. Supreme Court issued its decision in *Medtronic, Inc. v. Mirowski Family Ventures, LLC*, No. 12-118, 134 S. Ct. 843 (2014). In the unanimous decision, the Court held that the patent holder bears the burden of proving infringement, even when a licensee seeks a declaratory judgment that it does not infringe the licensor’s patents.

Background

Medtronic, Inc., (Medtronic) designs, makes, and sells medical devices. Mirowski Family Ventures, LLC, (Mirowski) owns patents relating to implantable heart stimulators. In 1991, Medtronic and Mirowski entered into a license agreement that permitted Medtronic to practice certain Mirowski patents in exchange for royalty payments. The agreement further provided for a procedure by which infringement claims would be resolved. If Medtronic launched a new product, Mirowski could notify Medtronic that the new product infringed its patents. Medtronic then could simply begin paying royalties on the new product, or seek to challenge the assertion of infringement through a declaratory judgment action. The agreement, however, prevented Mirowski from asserting patent infringement claims against Medtronic, unless Mirowski terminated the license. In 2007, Mirowski notified Medtronic of its belief that several of Medtronic’s new products infringed the licensed patents. Medtronic brought a declaratory judgment

action, asserting that its products did not infringe Mirowski’s patents and that the patents were invalid.

The district court held that Mirowski, the patentee, bore the burden of proving infringement, even though Mirowski was the defendant in the action. After a bench trial, the court found that Mirowski had not established that the new Medtronic products infringed the patents.

On appeal, the Federal Circuit disagreed. It held that Medtronic bore the burden of proving that its new products did not infringe Mirowski’s patents. The court acknowledged that normally Mirowski, the patent holder, would bear the burden of proving infringement. The court further recognized that the burden normally will not shift, even where a patent holder like Mirowski asserts infringement as a counterclaim in a declaratory judgment action. Nonetheless, the Federal Circuit held that a different rule applies where (1) the patent holder is a declaratory judgment defendant, and (2) the defendant patent holder is foreclosed from asserting an infringement counterclaim by the continued existence of a license. In those circumstances, the accused infringer – the party seeking a declaratory judgment of noninfringement – bears the burden of proof.

Supreme Court’s Analysis

The Supreme Court disagreed with the Federal Circuit, holding that the patent holder bears the burden of persuasion,

just as it would if the patent holder had brought the infringement suit. The Court found that it was well established that the burden of proving infringement generally rests upon the patentee. The Court further noted that it had long considered the Declaratory Judgment Act to leave substantive rights unchanged. The burden of proving infringement is a substantive right. Thus, taken together, these principles supported the conclusion that the burden of proving infringement should remain with the patent holder.

Several practical considerations brought the Court to the same conclusion. To rule otherwise, the Court determined, would risk post-litigation uncertainty about the scope of the patent. The Court also noted that shifting the burden to the accused infringer would create unnecessary complexity by making it difficult to understand the basis for the patent holder’s infringement claim. According to the Court, a patent holder is in a better position than an alleged infringer to know, and to be able to specify, just where, how and why an accused product infringes the claims.

Impact

The Supreme Court’s ruling will likely embolden licensees to challenge their licensed patents, and will likely make it more difficult to guarantee license-based revenue streams. Existing licensees might attempt to renegotiate agreements and receive more favorable terms under the threat of a declar-

atory judgment action. In all likelihood, the ruling will increase the number of declaratory judgment actions attempting to repudiate licenses.

Patent holders should continue to engage in a thorough analysis of infringement before threatening that new products fall within the scope of a license. When drafting agreements, patent holders should consider including a right to inspect new products to assess infringement, and should determine whether to include alternate dispute resolution in the agreement. In addition, to reduce the potential for abusive declaratory judgment suits, patent holders should consider including provisions terminating the license in the event of a declaratory judgment lawsuit.

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