



ARE Patent Law Alert: Patentee Bears Burden Of Proving Infringement Even When A Licensee Sues For A Declaratory Judgement Of Non-Infringement

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On January 22, 2014, in *Medtronic, Inc. v. Mirowski Family Ventures, LLC*, No. 12-1128, the U.S. Supreme Court unanimously ruled that even when a licensee in good standing seeks a declaratory judgment against a patentee that its products do not infringe the licensed patent, the patentee bears the burden of persuasion on the issue of infringement. This reversed the Federal Circuit's prior decision that the burden of persuasion under these circumstances should be borne by the licensee.

Background

Medtronic, Inc. licensed a portfolio of patents from the Mirowski Family Ventures, LLC. The license agreement provided that Medtronic should pay royalties when certain of its medical devices infringed the licensed patents. During the term of the license agreement, Mirowski sent Medtronic notice that it believed certain Medtronic products infringed its patents and that royalties were due. In response, Medtronic filed a declaratory judgment action to challenge whether royalties were due. Medtronic did not pay royalties during the pendency of the declaratory judgment action and instead paid the royalties into an escrow account in case it lost, as permitted by the agreement.

The district court held that the patentee, Mirowski, had the burden of proving infringement and that Mirowski had not met that burden. However, the Federal Circuit reversed, holding that when a licensee files a declaratory judgment action it has the burden of persuasion of proving non-infringement since the patentee could not file an infringement counterclaim.

Supreme Court Decision

The Court first determined that the district court and Federal Circuit had proper subject matter jurisdiction over this case. The Court held that the cause of action asserted by Medtronic was based on the patent laws because Mirowski had the right to terminate the agreement had Medtronic stopped paying the royalties and bring a patent infringement lawsuit. This potential patent infringement lawsuit made subject matter jurisdiction proper in the district court and the Federal Circuit for Medtronic's declaratory judgment action seeking to avoid the risk of a patent infringement lawsuit.



As to the merits, the Supreme Court reversed the Federal Circuit's decision, and held that placing the burden of proof on the patentee even when a licensee in good standing sues for declaratory judgment was the correct approach. The Supreme Court supported its decision with the following rationales:

1. a patentee ordinarily bears the burden of proving infringement;
2. the operation of the Declaratory Judgment Act is only procedural, leaving substantive issues like the burden of proof unchanged; and
3. the burden of proof is a substantive aspect of a claim.

The Court also expressed concern that shifting the burden based on the form of the action could create uncertainty about a patent's scope. The Court also noted that a licensee should not have to prove a negative -- i.e., that it does not infringe. Finally, the Court indicated that if it were to shift the burden of proving non-infringement to the accused infringer when declaratory judgment actions were filed, this would create a disincentive to file a declaratory judgment actions and would frustrate the purpose of the Declaratory Judgment Act of giving parties facing threats of litigation a way to proactively assert their rights and clear their risks.

Impact

License agreements often include provisions that address how disputes are to be resolved as well as the consequences of raising unsuccessful challenges, whether by way of assertions of invalidity or non-infringement of the licensed patents. *Medtronic* may strengthen the viability of a declaratory judgment action by licensees, and therefore these provisions may become an even greater focus for licensors and licensees alike. Alternative dispute procedures can be used when entering into a license to avoid the default rules set by the courts. Also, consideration should be given to when the agreement can be terminated, e.g., on non-payment of royalties or only after the licensee loses in court or arbitration. When drafting creative solutions, an attorney must also make sure such solutions do not run afoul of U.S. antitrust and foreign competition laws. Consultation with a lawyer skilled in licensing is recommended when trying to create provisions that might depart from the default rules.

We will continue to follow these developments. If you would like further information or have questions regarding this issue, please do not hesitate to contact us.

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