

# **IP Alert: Medtronic v. MFV — Supreme Court Unanimously Reverses Federal Circuit: Holding Patentees Always Bear the Burden of Proving Infringement**

January 23, 2014

## **Medtronic v. MFV — Supreme Court Unanimously reverses Federal circuit: Holding patentees always bear the burden of proving infringement**

By Aaron P. Bowling

On Wednesday, the Supreme Court unanimously reversed the Federal Circuit in *Medtronic v. Mirowski Family Ventures* (previously listed as *Medtronic v. Boston Scientific*), holding that the burden of proving infringement remains on the patent owner, even when a licensee seeks a declaratory judgment of noninfringement. The decision, authored by Justice Stephen Breyer, appears to substantially benefit patent licensees, who, upon showing declaratory standing, may now force the licensor to prove that a licensed patent covers the licensee's products, and do so at a time and forum of the licensee's choosing.

### **Background and Procedural Posture**

In 1991, Medtronic, a designer, manufacturer and distributor of medical devices, entered into a licensing agreement with Mirowski Family Ventures (MFV), the owner of various patents relating to implantable heart stimulators. Under the most recent version of that agreement, when Medtronic developed a new product, MFV could allege "infringement" of the licensed patents, Medtronic could then take one of three courses of action: (a) concede coverage of MFV's patent over the new product and pay additional royalties; (b) pursue a declaratory judgment of no infringement, meanwhile accumulating royalties in escrow; or (c) ignore the agreement entirely, and allow MFV to terminate the license and bring an infringement action. Sure enough, in 2007, Medtronic and MFV found themselves in

disagreement over whether the licensed patents covered several newly developed products. Medtronic filed a declaratory action in federal court seeking a ruling of noninfringement and invalidity.

At trial, the district court followed the general rule that patent owners carry the burden of proving infringement. A jury found for Medtronic, concluding that MFV had failed to show infringement of the patents-in-question. On appeal, however, the Federal Circuit carved out a narrow exception to the general rule, holding that Medtronic, the licensee and declaratory plaintiff, carried the burden to show noninfringement. It reasoned that the patent owner was a declaratory defendant, foreclosed from asserting an infringement claim because of the existing licensing agreement.

### **Supreme Court's Reversal — Patentee Always Carries the Burden of Proving Infringement**

As expected from the tone of oral arguments, the Supreme Court reversed the Federal Circuit on both statutory and policy grounds, ultimately holding that:

“[When] a patent licensee paying royalties into an escrow account under a patent licensing agreement seeks a declaratory judgment that some of its products are not covered by or do not infringe the patent . . . the burden of persuasion is with the patentee, just as it would be had the patentee brought an infringement action.”

Beginning with the Declaratory Judgment Act, the high court used three steps of “simple legal logic, resting upon settled case law” to dismantle the Federal Circuit’s burden shift. It stated that: (1) the burden of proving infringement typically rests on the patentee; (2) the Declaratory Judgment Act has only procedural, not substantive, impact; and (3) the burden of proof is a substantive aspect of a claim. Therefore, the Court held, the Federal Circuit had no legal justification for shifting the burden of proof as a result of the declaratory nature of the suit.

The Court noted further practical and policy-based concerns with the Federal Circuit’s rule that shifted the burden of proof to the licensee. Under that rule, the licensee faces the difficult task of proving a negative; an especially difficult task because, unlike the patentee who best understands the complex patent and its limitations, the licensee is “work[ing] in the dark, seeking. . . to negate every conceivable infringement theory.” Accordingly, because “licensees may often be the only individuals with enough economic incentive to litigate questions of a patent’s scope,” the Court opined that keeping the burden of proof on the patentee in these circumstances helps ensure that “patent monopolies are kept within their legitimate scope.”

Furthermore, the Court explained that the Federal Circuit rule would cause post-litigation uncertainty amongst the public, and the parties, about the scope of the litigated patent. If the licensee failed to meet the difficult burden of proving noninfringement, the licensee (not yet found to be affirmatively infringing) could nonetheless continue its allegedly infringing activity until the patentee filed an infringement suit. In that later suit, with the burden of proving infringement back on the patentee, the earlier declaratory judgment action would have no claim preclusive effect and would fail to serve its intended purpose of providing “an immediate and definitive determination of the legal rights of the parties.” Instead, the parties would be forced to relitigate the entire infringement allegation, with the possibility that the patentee might too fail to meet its burden of proving infringement: leaving the ultimate infringement question in limbo.

Lastly, the Court was not swayed by MFV's arguments that patent owners would be burdened by the ability of licensees "to force the patentee into full-blown patent infringement litigation. . . at [their] sole discretion." Those circumstances, the Court countered, are limited to situations where the licensee can show a genuine dispute of "sufficient immediacy and reality" about the patent's validity or its application. In that way, the "general public interest considerations are, at most, in balance. . . and do not favor a change in the ordinary rule imposing the burden of proving infringement upon the patentee."

### **Subject Matter Jurisdiction**

The Court also briefly affirmed the presence of declaratory judgment jurisdiction, which is determined by looking at the declaratory defendant's threatened action, i.e. whether the character of the defendant's "hypothetical coercive action would necessarily present a federal question." Contrary to the assertions of an amicus that the only threatened action was one for breach of contract, the Supreme Court found that if Medtronic stopped paying royalties in accordance with its belief of noninfringement, MFV "could terminate the license and bring an ordinary federal patent law action for infringement," and this potential patent infringement action was sufficient to show that "this declaratory judgment action, which avoids that threatened action, also "arises under" federal patent law.

### **Upcoming Patent Cases at the Supreme Court**

Notably, the Supreme Court has four additional patent cases scheduled for the remainder of this term: *Alice v. CLS Bank* (patent eligibility of software patents); *Limelight v. Akamai* (divided infringement, i.e., infringement by aggregated conduct of two or more actors); *Nautilus v. Biosig* (indefiniteness, i.e. vague claim language); and the twin cases *Highmark v. Allcare* and *Octane Fitness v. Icon Health* (attorney's fees). Banner & Witcoff attorneys are following these cases and will provide IP Alerts on the arguments and decisions.

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**Posted: January 23, 2014**