



IP: Consequences from the Federal Circuit's Medtronic decision

CONTESTING THE SCOPE OF A LICENSE MAY REQUIRE LICENSEES TO PROVE NONINFRINGEMENT

In 2007, the Supreme Court ruled in *MedImmune, Inc. v. Genentech, Inc.* that a patent licensee may file a declaratory judgment action seeking judgment of noninfringement, invalidity or unenforceability of the licensed patent without first terminating the license. The high court reasoned that a licensee should not be required to terminate the license or cease paying royalties under it in order to contest the patent because that could give rise to infringement liability. After *MedImmune*, the question remained as to the proper allocation of the burden of persuasion in a declaratory judgment case that a patent licensee brings against its licensor in which the issue is whether the licensee's products are covered by the license and, consequently, royalty bearing.

The Federal Circuit recently answered that question on Sept. 18 in *Medtronic, Inc. v. Boston Scientific Corp.* In the case, Mirowski Family Ventures LLC (MFV) owned several reissue patents (RE38,119 and RE39,897) that had been exclusively licensed to Guidant Corp. In 1991, Medtronic

entered into a sublicense covering the RE'119 patent with Guidant's predecessor in interest. That agreement permitted Medtronic to challenge the validity, scope and enforceability of the patent. In 2003, Medtronic began paying royalties into escrow, as permitted by its sublicense, while it challenged the validity of the RE'119 patent. The parties then entered into a tolling agreement that tolled the litigation and required MFV to advise Medtronic as to which Medtronic products were covered by either the RE'119 patent or subsequent patents that claimed priority to the RE'119 patent (i.e., the RE'897).

MFV provided its identification of the Medtronic products it contended were covered by the license. The tolling agreement provided that if Medtronic disagreed with MFV's position, Medtronic could retain its license but was obligated to seek a declaratory judgment of noninfringement. Medtronic thereafter filed its declaratory judgment complaint; because Medtronic continued as MFV's licensee, MFV could not counterclaim for infringement.

In the district court, the parties disagreed about whether patentee MFV had the burden of proving infringement or whether Medtronic, as the declaratory judgment plaintiff, had the burden of proving noninfringement. Ultimately, the district court concluded that MFV had the burden and found that the evidence it submitted was insufficient to establish either literal or doctrine of equivalents infringement.

On appeal, MFV argued that because Medtronic was the party seeking court action through its declaratory request, it bore the burden of proving noninfringement. Medtronic countered that MFV was the patentee, and the burden of proving infringement always lies with the patentee. Indeed, Medtronic argued that its declaratory judgment action was simply in compliance with the tolling agreement and that MFV was the party that asserted infringement when it provided the identification of Medtronic's products that MFV contended were subject to royalty payments under the patent license.

The Federal Circuit started its

analysis with the “well settled” rule that a patentee who files a complaint or counterclaim for patent infringement has the burden of proving infringement. The court noted that, in the absence of a license, when a declaratory judgment of noninfringement is filed, a counterclaim for infringement is compulsory and is waived if not made. However, when a license for the patent at issue continues to exist between the parties, *MedImmune* prohibits the infringement counterclaim.

The court then addressed the position of both parties by what each was seeking. The court noted that Medtronic, through its counterclaim, was seeking to be relieved of the royalty obligations under the license by having a court declare that its products are noninfringing. MFV was defending that claim and was not seeking affirmative relief via an infringement counterclaim. Because Medtronic was asking for a declaration of noninfringement, the court concluded that Medtronic must bear the burden of proving its entitlement to that relief.

The court then unequivocally held that when a patentee cannot assert a counterclaim for infringement due to the existence of a license, the licensee seeking a declaratory judgment of noninfringement, and hence no liability under the license, has the burden of proving noninfringement.

Practical consequences

There are several practical consequences flowing from *Medtronic*. The first is the obvious requirement that when a patent licensee decides to retain

its license and seek a declaratory judgment that its products are not covered by the licensed patent, it will have the burden of proving noninfringement.

The second consequence relates to the license itself. With this decision, a patent licensor may try to include a provision that enables it to identify future products that it contends are royalty bearing and to require the licensee to pay the royalties or seek a declaratory judgment determination on whether the products are covered by the license. This would then shift the burden to the licensee to prove that the products are not infringing and, consequently, are not royalty bearing products.

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