

January 24, 2014

# Patent Infringement and Declaratory Judgment

---

## U.S. Supreme Court Holds That a Patentee Has the Burden of Proving Infringement in a Declaratory Judgment Action Brought by a Licensee

---

### SUMMARY

The U.S. Supreme Court has issued its first in a series of important patent decisions this Term. In *Medtronic, Inc. v. Mirowski Family Ventures, LLC*, No. 12-1128 (January 22, 2014), the Court unanimously reversed the Court of Appeals for the Federal Circuit, and held that when a licensee seeks a declaratory judgment of non-infringement, the burden of proof as to infringement remains with the patentee. *Medtronic* is the latest indication of the Court's willingness to exercise active oversight of decisions of the Federal Circuit.

### BACKGROUND

This case is an extension of the Supreme Court's 2007 decision in *MedImmune, Inc. v. Genentech*. In *MedImmune*, the Court reversed the Federal Circuit, and held that a patent licensee had Article III standing to seek a declaratory judgment that the licensed patent was invalid and, alternatively, not infringed (so that the licensee would no longer be obligated to pay royalties under a licensing agreement). As federal courts have heard *MedImmune*-type declaratory judgment actions, they have reached various conclusions about which party bears the burden of proof on the infringement issue: the plaintiff, as is customary for most declaratory judgment actions, or the defendant patentee, as it would in typical patent infringement actions.

In this case, Mirowski Family Ventures, LLC ("Mirowski") licensed, for a royalty, patents relating to implantable heart stimulators to Eli Lilly & Co., which in turn sublicensed them to medical device firm Medtronic, Inc. ("Medtronic"). The sublicense agreement provided that, on notice from Mirowski that a

## SULLIVAN & CROMWELL LLP

Medtronic product infringed a Mirowski patent, Medtronic could challenge the assertion of infringement through a declaratory judgment action, while accumulating the disputed royalties in an escrow account. Thus, if a dispute arose, Medtronic could bring a declaratory judgment action for non-infringement, but Mirowski could not assert the traditional counterclaim of infringement because the sublicense under the challenged patent remained in place and was unaffected by the declaratory judgment claim.

In 2007, Mirowski notified Medtronic that it believed that several new Medtronic products violated Mirowski's patents. Pursuant to the sublicense agreement, Medtronic brought an action seeking a declaration that its products did not infringe the patents and that the patents were invalid. The district court held that the burden of proving infringement is always on the patentee, and following a bench trial, ruled that Mirowski had failed to carry the burden of proof imposed by the district court. The Federal Circuit reversed, holding that where that patentee is a declaratory judgment defendant and, like Mirowski, is foreclosed from asserting an infringement counterclaim by the continued existence of a license, the party seeking the declaratory judgment of non-infringement bears the burden of proof. At Medtronic's request, the Supreme Court granted review.

---

### THE SUPREME COURT'S DECISION

The Supreme Court reversed the Federal Circuit and held that a patentee bears the burden of proof in asserting infringement even when it is the defendant in a declaratory judgment action.

The Court first considered whether the case was a patent infringement action (which would give the Federal Circuit jurisdiction to hear the appeal) or merely a contract dispute (in which case appellate jurisdiction would lie in the regional circuit court). The Court explained that subject matter jurisdiction over a declaratory judgment action generally depends on the "character of the threatened action" that could be brought by the declaratory judgment defendant. The Court reasoned that in the absence of declaratory judgment, Mirowski would have terminated the contract and brought a patent infringement action. Such a "coercive action" by Mirowski would arise under federal patent law, and therefore the Court reasoned that the Federal Circuit had subject matter jurisdiction over the appeal of the corresponding declaratory judgment action.

The Supreme Court then turned to the issue of the burden of proof, and held that the burden of proving infringement in a declaratory judgment suit brought by a licensee remains with the patentee, for three reasons. First, the Court found no reason to change the well-established proposition that the burden of proving infringement generally rests upon the patentee. Second, the Court noted that "the operation of the Declaratory Judgment Act" is only "procedural," while the burden of proof is a "substantive" aspect of a claim." Therefore, the filing of a declaratory judgment action could not shift the burden of proof.

Third, the Court supported its conclusion with a number of practical considerations. For example, placing the burden of proof on the licensee and relying on the licensee to set the scope of the infringement

## SULLIVAN & CROMWELL LLP

debate would create post-litigation uncertainty about the scope of the patent. It also would create unwarranted complexity in declaratory judgment litigation, by forcing the licensee to anticipate the patentee's infringement arguments or by requiring the licensee to negate every conceivable infringement theory. The Court therefore determined that the Federal Circuit's burden-shifting rule would create substantial, and unnecessary, obstacles to licensees' use of the declaratory judgment procedure.

---

### IMPLICATIONS

The Supreme Court's decision essentially resets the law to what most practitioners believed it to be prior to the Federal Circuit's decision: the patentee always bears the burden of proving infringement. Because the Federal Circuit's decision to abandon that principle was limited to the very unusual situation of a patentee sued for declaratory judgment of non-infringement that cannot bring an infringement counterclaim, the impact of the Supreme Court's reversal may be limited as well.

The decision leaves open the question, however, of whether license terms may change the relevant baseline legal rules regarding infringement and the burden of proof. For example, may a licensee agree, as part of the license agreement, not to file a declaratory judgment action or that the licensee has the burden of proving non-infringement, or that the license may be terminated if the licensee questions infringement or validity through the declaratory judgment procedure? Although the Court's opinion does not expressly address these questions, it could be read to suggest that at least the provisions forbidding declaratory judgment actions or ones shifting the burden of proof may be unenforceable on public policy grounds, because it notes that "the public has a paramount interest in seeing that patent monopolies . . . are kept within their legitimate scope."

The decision may also signal that the Court intends to continue its recent trend of checking efforts by the Federal Circuit to modify established doctrine. The Court has accepted *certiorari* in a number of important patent cases this Term, including:

- *Highmark, Inc. v. Allcare Management Systems, Inc.* and *Octane Fitness, LLC v. Icon Health & Fitness, Inc.* (both to be argued on February 26), in which the Court will consider the appropriate test for declaring a case "exceptional" under 35 U.S.C. §§ 284 and 285, thereby allowing the award of enhanced damages for a finding of willful infringement and an award of attorneys' fees to the prevailing party.
- *Alice Corp. Pty. Ltd. v. CLS Bank Int'l.* (to be argued on March 31), in which the Court will consider whether computer-implemented inventions embodying abstract ideas are eligible subject matter for patents.
- *Akamai Technologies, Inc. v. Limelight Networks, Inc.* (oral argument has not yet been scheduled), in which the Court will consider whether a defendant may be liable for inducing patent infringement in cases of "divided infringement" where no single party has committed direct infringement.
- *Nautilus, Inc. v. Biosig Instruments, Inc.* (oral argument has not yet been scheduled), in which the Court will consider whether the Federal Circuit's test for whether a patent claim is invalid as ambiguous is inconsistent with 35 U.S.C. § 112(b), which requires a patent claim to particularly and distinctly set out what the inventor regards as his invention.

## SULLIVAN & CROMWELL LLP

The Court has also accepted two copyright matters for review:

- *Petrella v. Metro-Goldwyn-Mayer, Inc.* (argued on January 21), in which the Court will consider whether laches may be available as a defense even for copyright claims filed within the Copyright Act's three-year statute of limitations.
- *American Broadcasting Companies, Inc. v. Aereo, Inc.* (oral argument has not yet been scheduled), in which the Court will consider whether the transmission of a live Internet broadcast is a "public performance" for purposes of copyright infringement.

It is rare that so many weighty intellectual property issues are determined in a single term of the Court, and it remains to be seen whether the recent trend of the Court reversing the Federal Circuit in patent cases continues to hold.

\* \* \*

# SULLIVAN & CROMWELL LLP

## ABOUT SULLIVAN & CROMWELL LLP

Sullivan & Cromwell LLP is a global law firm that advises on major domestic and cross-border M&A, finance, corporate and real estate transactions, significant litigation and corporate investigations, and complex restructuring, regulatory, tax and estate planning matters. Founded in 1879, Sullivan & Cromwell LLP has more than 800 lawyers on four continents, with four offices in the United States, including its headquarters in New York, three offices in Europe, two in Australia and three in Asia.

## CONTACTING SULLIVAN & CROMWELL LLP

This publication is provided by Sullivan & Cromwell LLP as a service to clients and colleagues. The information contained in this publication should not be construed as legal advice. Questions regarding the matters discussed in this publication may be directed to any of our lawyers listed below, or to any other Sullivan & Cromwell LLP lawyer with whom you have consulted in the past on similar matters. If you have not received this publication directly from us, you may obtain a copy of any past or future related publications from Stefanie S. Trilling (+1-212-558-4752; [trillings@sullcrom.com](mailto:trillings@sullcrom.com)) in our New York office.

## CONTACTS

---

### New York

Garrard R. Beeney	+1-212-558-3737	<a href="mailto:beeneyg@sullcrom.com">beeneyg@sullcrom.com</a>
Marc De Leeuw	+1-212-558-4219	<a href="mailto:deleeuwm@sullcrom.com">deleeuwm@sullcrom.com</a>
John Evangelakos	+1-212-558-4260	<a href="mailto:evangelakosj@sullcrom.com">evangelakosj@sullcrom.com</a>
Adam R. Brebner	+1-212-558-3011	<a href="mailto:brebnera@sullcrom.com">brebnera@sullcrom.com</a>
Stephen J. Elliott	+1-212-558-7446	<a href="mailto:elliotts@sullcrom.com">elliotts@sullcrom.com</a>
James T. Williams	+1-212-558-3130	<a href="mailto:williamsj@sullcrom.com">williamsj@sullcrom.com</a>

---

### Palo Alto

Nader A. Mousavi	+1-650-461-5660	<a href="mailto:mousavin@sullcrom.com">mousavin@sullcrom.com</a>
------------------	-----------------	--

---

### Washington, D.C.

Jeffrey B. Wall	+1-202-956-7660	<a href="mailto:wallj@sullcrom.com">wallj@sullcrom.com</a>
-----------------	-----------------	--

---