

OFFICE OF THE GENERAL COUNSEL

Practice Group Advisory

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Charles F. Robinson
General Counsel
Vice President for Legal Affairs

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SUMMARY

U.S. Supreme Court removes obstacle to patent challenges by licensees.

If you have any questions regarding the issues raised by the *Medtronic* decision, please contact:

Marty Simpson
Managing Counsel
Intellectual Property
Marty.Simpson@ucop.edu

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U.S. SUPREME COURT REMOVES OBSTACLE TO PATENT CHALLENGES BY LICENSEES

On January 22, 2014, the U.S. Supreme Court in *Medtronic v. Mirowski* held that when a licensee sues a patent owner in a “declaratory judgment” action (requesting a court to declare that licensee’s products do not infringe the patent), the patent owner has the burden of proving infringement by the licensee. This ruling restores the normal burden of proof rule in patent infringement cases and removes an obstacle to patent challenges by licensees.

Background

In 1991, Medtronic, Inc. (“Medtronic”) took a license to patents owned by Mirowski Family Ventures, LLC (“Mirowski”). Licensee Medtronic agreed to pay a royalty to Mirowski on all of Medtronic’s products that were covered by (*i.e.*, infringed) Mirowski’s patents. The license also specified how the parties would handle potential disputes over which products were covered by the patents. In particular, Mirowski agreed to notify Medtronic of Medtronic’s products that were covered by Mirowski’s patents, and if Medtronic disagreed, Medtronic could file for a declaratory judgment of noninfringement. In 2007, Mirowski gave Medtronic such a notice, Medtronic disagreed, and Medtronic sued Mirowski for a declaratory judgment of noninfringement.

The trial court noted that normally the patent owner, Mirowski, had the burden of proving that Medtronic’s products infringed, and then found noninfringement by Medtronic. Mirowski appealed to the Court of Appeals for the Federal Circuit (“Federal Circuit”), and the Federal Circuit ruled in favor of Mirowski, applying a special, patent owner-friendly, rule for such declaratory judgment actions, so that the burden of proof was shifted to the licensee. Medtronic then appealed to the Supreme Court, to restore the normal rule.

The Supreme Court in its 9-0 decision reversed the Federal Circuit and restored the normal rule that a patent owner must shoulder the burden of proving infringement by a potential infringer (here, a licensee).

Impact

The *Medtronic* decision may, in instances of genuine disagreement over whether a licensee’s product infringes a patent, increase the willingness of licensees to sue patent owners, such as the University, to clarify their rights and to avoid paying royalties. For example, such a declaratory judgment action could arise after a patent owner audits its licensee’s records (under the terms of their license) to verify that the licensee has paid the proper royalties on licensee’s products. An audit may reveal that the licensee failed to pay a royalty on a product, and the licensee may disagree and dispute paying a royalty on the product. Post-*Medtronic*, in such disputes over whether a product infringes, a licensee may be more inclined to file a declaratory judgment action against the patent owner, since the licensee no longer has to prove noninfringement.

Although the patent owner will have the (often costly and risky) burden of proving that the licensee’s disputed products infringe the licensed patents, clarifying patent rights via such a declaratory judgment action is in the public interest, so that the public knows what it is free to use.