

Reproduced with permission from BNA's Patent, Trademark & Copyright Journal, 87 PTCJ 1570, 4/25/14. Copyright © 2014 by The Bureau of National Affairs, Inc. (800-372-1033) <http://www.bna.com>

PATENTS

The author reviews the recent Supreme Court *Medtronic* decision and sees a shift in the balance in favor of patent licensees and against patent owners.

The “Burden” of Patent Infringement: Supreme Court Holds That Burden of Proof Remains With Patentee Even in Declaratory Judgment Actions Filed by Licensee



By J. MARK WILSON

The Supreme Court of the United States has made it clear that the traditional canons of litigation—including those involving jurisdiction and which party bears the burden of proof—hold true in patent cases, even those cases involving a license agreement and a declaratory judgment action by a licensee against a patentee. Following up on its 2007 decision in *MedImmune v. Genentech*, the Supreme Court recently ruled in *Medtronic v. Mirowski Family Ventures* that the bur-

J. Mark Wilson is a member of Moore & Van Allen's intellectual property group in Charlotte, N.C. He focuses his practice on intellectual property litigation and other complex business matters, such as contract and unfair competition cases, and other commercial disputes involving the licensing, use or sale of intellectual property and related technologies. He can be reached at markwilson@mvalaw.com or 704-331-1177.

den of proof in a patent infringement case remains with the patentee, including in a declaratory judgment suit brought by a licensee.¹

This is the second time the Supreme Court has reversed the U.S. Court of Appeals of the Federal Circuit in cases involving declaratory judgment claims brought by licensees. In *MedImmune*, the Supreme Court held that a patent licensee is not required to repudiate a license agreement before seeking a declaratory judgment that the licensed patent is invalid, unenforceable or not infringed.² The *MedImmune* decision removed a jurisdictional barrier erected by the Federal Circuit to a patent challenge by a licensee, which otherwise would have been faced with the decision to terminate the license or breach the agreement before seeking declaratory relief.

Following up on the *MedImmune* decision, the Supreme Court in *Medtronic* held that, when a patent licensee seeks a declaratory judgment against a patentee to establish that there is no infringement, the burden of proving infringement remains with the patentee. This decision confirmed the long-standing principle that the burden of proof rests with the patentee, no matter whether the patentee is the plaintiff in a conventional court proceeding or the defendant in a declaratory judgment action brought by another party, and no matter whether the other party is a third party without any existing relationship with the patentee or a licensee of the patentee in an ongoing licensing arrangement.

¹ *Medtronic, Inc. v. Mirowski Family Ventures, LLC*, 134 S. Ct. 843, 2014 BL 16043, 109 U.S.P.Q.2d 1341 (2014) (87 PTCJ 625, 1/24/14).

² *MedImmune Inc. v. Genentech Inc.*, 549 U.S. 118, 2007 BL 119118, 81 U.S.P.Q.2d 1225 (2007) (73 PTCJ 242, 1/12/07)

The Underlying Dispute Between Patentee and Licensee

The facts of the *Medtronic* decision are straightforward. Medtronic Inc. designs, produces and sells medical devices. Mirowski Family Ventures LLC owns patents relating to implantable heart stimulators. Medtronic entered into an agreement with Mirowski, under which Medtronic would pay royalties to Mirowski for the right to practice some of Mirowski's patents. The agreement provided that if Mirowski notified Medtronic that a Medtronic product infringed a Mirowski patent, Medtronic had a choice: Medtronic could either (1) cure the nonpayment of royalties or (2) pay the royalties into an escrow account and challenge the infringement assertion in a declaratory judgment action. If Medtronic ignored the agreement and decided not to pay royalties at all, Mirowski could terminate the license and bring an infringement action, if it wished.

Several years after entering into a license agreement, the parties found themselves in a dispute over whether certain Medtronic products infringed Mirowski's patents and thus should be royalty-bearing products under the license agreement. Medtronic believed that its products did not infringe Mirowski's patents, either because the products were outside the scope of the patent claims or because the patents were invalid. After a notice from Mirowski alleging infringement, Medtronic paid royalties into an escrow account, pursuant to the license agreement, and filed a declaratory judgment action seeking a declaration that its products did not infringe Mirowski's patents and that the patents were invalid. The district court held that Mirowski, "[a]s the part[y] asserting infringement," had the burden of proving infringement based on a long history of cases holding that "[t]he burden always is on the patentee to show infringement."³

The Federal Circuit's Burden-Shifting Approach

The Federal Circuit held that, contrary to the traditional rule that the burden of proof rests with the patentee, Medtronic—the declaratory judgment plaintiff and the licensee of Mirowski's patents—bore the burden of persuasion in this particular case.⁴ The Federal Circuit recognized that the patentee normally bears the burden of proving infringement and that the burden does not normally shift even when the patentee is a counterclaim defendant in a declaratory judgment action; nevertheless, the Federal Circuit believed that a different rule should apply where the patentee/defendant is foreclosed, because of the continued existence of the license agreement, from asserting a patent infringement counterclaim against the licensee/declaratory judgment plaintiff.

The license in question with Mirowski arguably allowed Medtronic to continue to enjoy the protections of the license while it challenged the underlying patent rights through a declaratory judgment action. In such a specific case, according to the Federal Circuit, the party seeking the declaration from the court should bear the burden of persuasion on its declaratory judgment claims.

³ *Medtronic, Inc. v. Bos. Scientific Corp.*, 777 F. Supp. 2d 750, 2011 BL 84080 (D. Del. 2011).

⁴ *Medtronic Inc. v. Bos. Scientific Corp.*, 695 F.3d 1266, 2012 BL 239224, 104 U.S.P.Q.2d 1323 (Fed. Cir. 2012) (84 PTCJ 849, 9/21/12).

The Supreme Court Decision Reversing the Federal Circuit

The Supreme Court reversed. As an initial matter, the Supreme Court dispensed with a jurisdictional question raised by an amicus, which claimed that the Supreme Court must vacate the Federal Circuit's decision because that court lacked subject matter jurisdiction given the nature of the underlying coercive action available to Mirowski. The Supreme Court confirmed that the Declaratory Judgment Act does not extend the jurisdiction of the federal courts; however, the Supreme Court held that the "hypothetical threatened action" under the particular license agreement in question is properly characterized as an action arising under an Act of Congress relating to patents under 28 U.S.C. § 1338, and therefore subject matter jurisdiction was appropriate.

The Supreme Court then turned to the substantive issue, which it framed as follows:

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, and that it therefore does not owe royalties for those products. In that suit, who bears the burden of proof, or, to be more precise, the burden of persuasion? Must the patentee prove infringement or must the licensee prove noninfringement?

The Supreme Court then decisively answered these questions by stating, "In our view, the burden of persuasion is with the patentee, just as it would be had the patentee brought an infringement suit." The Supreme Court based its decision on three legal propositions.

First, the Supreme Court stated that "simple legal logic" and settled case law strongly supported its conclusion. Citing to *Agawam Co. v. Jordan* from 1869⁵ and *Imhaeuser v. Buerk* from 1879,⁶ the Supreme Court repeated that the burden to prove infringement always is upon the patentee, not the alleged infringer. Second, the Supreme Court reiterated its long-standing position that the Declaratory Judgment Act is only "procedural" and operation of the Act leaves substantive rights unchanged. Third, the Supreme Court confirmed that the burden of proof is a substantive aspect of a claim.

The Supreme Court next discussed "practical considerations" that supported its holding. In so doing, the Supreme Court posited a hypothetical example—which it expressly stated is not "fanciful" based on the Restatement (Second) of Judgments—showing the problems that might result from the Federal Circuit's burden-shifting approach. Shifting the burden depending on the form of the action could create uncertainty about the scope of a patent, according to the Supreme Court. A situation could arise where an alleged infringer in a declaratory judgment action and the patentee in a traditional infringement action both lose separate cases because the evidence is inconclusive, which would create uncertainty among the parties and others as to what the patent covers and what products and processes are free of infringement.

The Supreme Court also cited to the complexity that would be created by a burden-shifting regime. A licensee, like any other accused party, is entitled to know the infringement theories espoused by the patentee, including the "where, how, and why a product (or pro-

⁵ 74 U.S. 583 (1868).

⁶ 101 U.S. 647 (1879).

cess) infringes a claim of that patent,” and should not be forced to “work in the dark,” as expressed by the Supreme Court, to negate every conceivable infringement theory. The burden-shifting approach proposed by the Federal Circuit would require a licensee to prove a negative—that it does not infringe—without knowing why the patentee has made assertions to the contrary, and would require a patentee to debunk every conceivable infringement theory without knowing which claims and limitations might be at issue.

Burden-shifting, according to the Supreme Court, is at odds with the basic purpose of the Declaratory Judgment Act: to provide an immediate and definitive determination of the legal rights of the parties. It is here that the Supreme Court found the Federal Circuit’s burden-shifting approach to be irreconcilable with the Supreme Court’s decision in a previous reversal of another Federal Circuit case involving declaratory judgment actions, *MedImmune*.

A Look Back at *MedImmune v. Genentech*

MedImmune Inc. had agreed to a license with Genentech Inc. covering certain issued and pending patent rights. A dispute arose between the parties as to whether MedImmune was obligated to pay royalties for a new product under a subsequently issued patent, which MedImmune contended was invalid, unenforceable and not infringed. In order to protect its interests, MedImmune, the licensee, paid the royalties “under protest” and filed an action for declaratory relief against Genentech, the patentee.

Despite the fact that the patentee had accused its licensee of infringement, the Federal Circuit affirmed the dismissal of the licensee’s declaratory judgment claims for lack of subject matter jurisdiction because there was no “case or controversy” given that the license agreement removed any reasonable apprehension that the licensee would be sued for infringement.

In reversing the Federal Circuit, the Supreme Court wrote that the dilemma posed by putting the licensee to the choice between abandoning his rights or risking prosecution is “a dilemma that it was the very purpose of the Declaratory Judgment Act to ameliorate.” As a result, the Supreme Court held in *MedImmune* that a patent licensee is not required, insofar as Article III’s case or controversy requirement is concerned, to break or terminate its patent license agreement before seeking a declaratory judgment in federal court that the underlying patent is invalid, unenforceable or not infringed.

The Supreme Court harkened back to its ruling in *MedImmune* to justify its decision in *Medtronic*. In the absence of the declaratory judgment procedure, Medtronic, the licensee, would face the precise dilemma described in *MedImmune*: either Medtronic would have to abandon its rights to challenge the scope of Mirowski’s patents or it would have to stop paying royalties, risk losing an ordinary patent infringement lawsuit, and thereby risk liability for treble damages and attorney’s fees as well as injunctive relief. Although the Federal Circuit’s burden-shifting approach (which the Supreme Court called the Federal Circuit’s “burden shifting rule”) does not deprive a licensee of the right to seek declaratory relief in federal court, the Supreme Court found it to create a significant, and “disadvantageous,” obstacle that “recreates” the dilemma that the Declaratory Judgment Act—and the Supreme Court’s

2007 decision in *MedImmune*—should have ameliorated.

The Supreme Court’s Discontent With the Federal Circuit’s “Rules”

This is not the first time that the Supreme Court has taken issue with what it observes to be unacceptable “rules” developed by the Federal Circuit. One need look no further than the past decisions in *Festo v. Shoketsu Kinzoku Kogyo Kabushiki*,⁷ *eBay v. MercExchange*,⁸ *KSR v. Teleflex*⁹ and *Bilski v. Kappos*¹⁰ for proof that the Supreme Court has made it an objective to reform the perceived rigid, bright-line rules formulated by the Federal Circuit. This holds true even in cases where the Federal Circuit expressly states that its decision is limited to a particular set of circumstances, such as the present case. Indeed, the Supreme Court took issue with this position from the Federal Circuit when it curtly stated that “the fact that a rule’s scope is limited cannot, by itself, show that the rule is legally justified.”

There can be no reasonable dispute that this decision is yet another complication for patentees that license and enforce their patents as part of their business endeavors. Patentees can be brought into a lawsuit—even when they have no right to sue because of the existence of a patent license—and must bear the cost, expense and even burden of proof in defense of the case. But a hard-and-fast rule that shifted the burden based on the particular posture and facts of the case—while appealing on some level given the unique relationship between a patentee and a licensee—ran afoul of settled case law and “simple legal logic” such that this rule, like the others before it from the Federal Circuit in other contexts, could not stand.

The Supreme Court seemed to fault Mirowski, the licensee, for its predicament because “it was Mirowski that set the present dispute in motion by accusing Medtronic of infringement.” The Supreme Court went so far as to state that “we see no convincing reason why burden of proof law should favor the patentee” in such an instance. How a patentee can ever call into question the actions of its licensee without opening itself up to a costly and time consuming legal fight over the very rights that the parties had previously agreed to license in order to avoid this precise situation remains an open question. However, according to the Supreme Court’s decision, burden shifting is not the answer.

In discussing policy considerations, the Supreme Court determined that the general public interest considerations posed by the present case “are, at most, in balance.” Under the auspices of maintaining the status quo as it pertains to procedural and substantive issues involved in declaratory judgment actions between patentees and licensees, the combination of decisions from the Supreme Court in *MedImmune* and *Medtronic* seems to have confirmed a “shift” in the balance in favor of licensees and against patent owners, and this is a

⁷ *Festo v. Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 62 U.S.P.Q.2d 1705 (2002) (64 PTCJ 98, 5/31/02).

⁸ *eBay Inc. v. MercExchange LLC*, 547 U.S. 388, 78 U.S.P.Q.2d 1577 (2006) (72 PTCJ 50, 5/19/06).

⁹ *KSR Int’l Co. v. Teleflex Inc.*, 550 U.S. 398, 2007 BL 12375, 82 U.S.P.Q.2d 1385 (2007) (74 PTCJ 5, 5/4/07).

¹⁰ *Bilski v. Kappos*, 130 S. Ct. 3218, 2010 BL 146286, 95 U.S.P.Q.2d 1001 (2010) (80 PTCJ 285, 7/2/10).

“burden” with which all patent owners will have to contend from now on.