

Client Alert

January 27, 2014

Supreme Court Unanimously Holds Burden of Proving Infringement Does Not Shift to Licensees in Declaratory Judgment Actions

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The Supreme Court's decision last week in *Medtronic v. Mirowski Family Ventures, LLC* clarifies once again that patent holders bear the burden of proving patent infringement—even in declaratory judgment actions brought by licensees. 571 U.S. __ (2014). The Federal Circuit had held that licensees must prove non-infringement in declaratory judgment actions in which they are challenging a patent while continuing to pay royalties under a license. The Supreme Court reversed, explaining that "[s]imple legal logic, resting upon settled case law" requires that burden to remain, as usual, with the patentee. This decision reaffirms and reinforces the Supreme Court's earlier decision in *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007), which found that there is jurisdiction where licensees challenge patents through declaratory judgment actions.

BACKGROUND

In *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007), the Supreme Court held that a patent licensee can file a declaratory judgment action challenging a patent without first having to terminate the license. The Court found that the case-or-controversy requirement of Article III, reflected in the "actual controversy" requirement of the Declaratory Judgment Act, 28 U.S.C. § 2201(a), does not require that licensees expose themselves to liability by breaching or terminating their license agreements before they can take advantage of the declaratory judgment procedure. *Id.* at 120, 137. *MedImmune* did not address the question of which party bears the burden of proving infringement in these kinds of actions, however.

The Federal Circuit faced that issue for the first time in *Medtronic*. The case arises from a licensing agreement entered into in 1991 between Medtronic, Inc. and Mirowski Family Ventures for patents relating to implantable heart stimulators. In 2007, Mirowski sent notice to Medtronic asserting that several of Medtronic's new products practiced patents covered by the licensing agreement. In response, Medtronic brought a declaratory judgment action in the Federal District Court of Delaware, seeking a declaration that Medtronic's devices did not infringe any valid and enforceable claim of the asserted patents. Medtronic continued to make royalty payments, pursuant to a provision in the parties' agreement that, if Medtronic chose to pursue a declaratory judgment action, royalties paid in the meantime would be held in an escrow account. (Slip op. at 1-3.)

The parties disagreed in District Court about who bore the burden of proving infringement. The court decided that the burden should be borne by Mirowski, as the patentee. After a bench trial, the court upheld the validity and enforceability of the Mirowski patents but entered judgment in Medtronic's favor on the issue of infringement. The court found that Mirowski had not proved infringement, either directly or under the doctrine of equivalents, and since Mirowski bore the burden of proof, it lost. *Medtronic, Inc. v. Boston Scientific Corp.*, 777 F. Supp. 2d 750, 766-770 (Del. 2011). Both parties appealed.

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THE FEDERAL CIRCUIT'S DECISION

The Federal Circuit vacated and remanded the case on the basis that the District Court had incorrectly allocated the burden of proof on the issue of infringement, which it concluded rested with Medtronic under these particular circumstances. Specifically, the Federal Circuit held that: "in the limited circumstance when an infringement counterclaim by a patentee is foreclosed by the continued existence of a license, a licensee seeking a declaratory judgment of non-infringement and of no consequent liability under the license bears the burden of persuasion." *Medtronic Inc. v. Boston Scientific Corp.*, 695 F.3d 1266, 1274 (Fed. Cir. 2012).

The Federal Circuit reasoned that the party seeking relief normally bears the burden of proof. While it acknowledged that the substantive burden of proof does not normally shift in a declaratory judgment action, the court noted that in the normal case, a defendant to a declaratory judgment action will file affirmative counterclaims, which impose the normal burden of proof. In this situation, however, the patentee is barred from filing an infringement counterclaim because the license remained in effect. *Id.* at 1273. The Court also emphasized that the burden should rest with Medtronic as the party disturbing the status quo: "A contrary result would allow licensees to use *MedImmune's* shield as a sword—hauling licensors into court and forcing them to assert and prove what had already been resolved by license." *Id.* at 1273-74.

THE SUPREME COURT'S DECISION

In a unanimous opinion authored by Justice Breyer, the Supreme Court reversed, holding that "when a licensee seeks a declaratory judgment against a patentee to establish that there is no infringement, the burden of proving infringement remains with the patentee." (Slip op. at 1.)

The Court based its decision upon three legal propositions, which it termed "[s]imple legal logic, resting upon settled case law:" (1) "It is well established that the burden of proving infringement generally rests upon the patentee;" (2) the operation of the Declaratory Judgment Act is "procedural" only; and (3) "the burden of proof is a 'substantive' aspect of a claim." (*Id.* at 6-7.)

The Court observed that its decision was enforced by several practical considerations. First, shifting the burden depending on the form of an action would undermine the finality of declaratory judgment actions. Uncertainty could arise in a situation where the licensee fails to meet its burden of proving non-infringement because the evidence is inconclusive. That outcome would not be *res judicata* in a subsequent action between the same parties if the infringing activity continued and the patent holder were forced to file suit, because in that later action the patentee would bear the burden of proof. (*Id.* at 7-8.)

Second, the Court acknowledged that patent holders are generally in a better position to identify exactly "where, how, and why" a product or process infringes their patents. Because a complex patent can contain many pages of claims and limitations, shifting the burden could introduce unnecessary complexity into declaratory judgment actions by requiring licensees to try "to negate every conceivable infringement theory." (*Id.* at 8.)

Finally, the Supreme Court found that shifting the burden to licensees would be inconsistent with its recent decision in *MedImmune*. *MedImmune* established that the Declaratory Judgment Act can be used to ameliorate the dilemma that would otherwise force licensees wishing to challenge a patent's scope to choose between abandoning their rights or risking liability for infringement. By placing the burden to prove non-infringement on the licensee, "the Federal Circuit's burden-shifting rule" would "create a significant obstacle" to use of that declaratory judgment procedure. (*Id.* at 9.)

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The Court also briefly addressed a jurisdictional challenge raised by one of the *amici*, who contended that the Federal Circuit lacked subject matter jurisdiction because the "true nature" of the action Mirowski could have brought in the absence of the declaratory judgment would be an action for breach of contract, not patent infringement. (*Id.* at 4.) The Court disagreed because the licensing agreement specified that if Medtronic stopped paying royalties, Mirowski would be entitled to terminate the contract and bring a patent infringement action. (*Id.* at 4-5.)

PRACTICAL IMPLICATIONS

The Supreme Court's decision clarifies an important issue about who has the burden of proof in a *MedImmune*-type declaratory judgment action. It restores the expectations that had largely existed prior to the Federal Circuit's decision, which took a step backwards from *MedImmune*. Since *MedImmune* issued in 2007, most practitioners have assumed that when a licensee chooses to file suit but continue to make payments under the license, the patentee would be required to prove infringement just as it normally does. Had the Court upheld the Federal Circuit's burden-shifting rule, parties and courts would have been placed into uncharted waters, trying to cope with the procedural and substantive difficulties involved in proving non-infringement. And licensees would have faced a more difficult decision in evaluating whether to file this type of declaratory action in the first place.

For patent holders, the decision highlights the importance of trying to include contractual provisions to protect yourself from this type of lawsuit. Parties who have the bargaining leverage to do it have been trying to avoid this result contractually since the *MedImmune* decision issued, and even before, by including provisions that are intended to prevent, or discourage, the licensee from filing suit while still maintaining a license. Examples are provisions stating that the agreement will be terminated if the licensee files suit, or that the royalty payments will increase significantly in that situation. The possibility of including these types of provisions was discussed in the briefing before the Court, but the Court did not comment upon them.

For licensees, this decision affirms the right to file suit for invalidity or non-infringement while continuing to keep the license agreement in force, and ensures that the licensee will not be placed at a procedural disadvantage in the litigation because of that choice.

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