The Supreme Court Clarifies the Burden of Proof in Declaratory-Judgment Patent Actions

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On January 22, the U.S. Supreme Court issued its decision in Medtronic, Inc. v. Mirowski Family Ventures, LLC (No. 12-1128), decisively settling the question of who bears the burden of proof in an action where a patent licensee seeks a declaratory-judgment of non-infringement. The Court unanimously held that this burden resides with the patent holder, reversing a contrary decision by the U.S. Court of Appeals for the Federal Circuit. This is the outcome that we forecasted in a prior client alert, published shortly after the oral argument before the Court. As we wrote there, companies that grant licenses to their intellectual property portfolio, particularly as a resolution to patent disputes, should consider potential modifications to their licensing arrangements in the wake of the Supreme Court's decision.

Background

The case arises from a patent dispute between Medtronic, Inc., a medical equipment manufacturer, and Mirowski Family Ventures, LLC (“MVF”), a company holding patents to a cardiac stimulation device. Medtronic obtained a license that permitted it to practice certain MVF patents, in exchange for royalties. The license provided that if MVF (or other licensors) believed any new Medtronic device infringed one of the licensed patents, they could notify Medtronic of the infringement, forcing Medtronic to start paying the royalty for the new device or to have the license terminated. If Medtronic chose to pay the royalty, it nevertheless retained the right to challenge the patent holder’s claim of infringement through a declaratory-judgment action.

In 2007, MVF notified Medtronic that some of its products infringed two of the licensed MVF patents. Medtronic sought a declaratory judgment of non-infringement as to the asserted patents, while continuing to pay the disputed royalties into an escrow account. Medtronic and MVF disagreed as to who should bear the burden of proving infringement at trial: Medtronic contended that the burden should remain with MVF, as the patentee, while MVF argued that the burden should lie with Medtronic, as the plaintiff in the declaratory-judgment action.

The district court agreed with Medtronic, concluding that the burden of proving infringement should always reside with the patentee. The Federal Circuit took the opposite stand. While the Federal Circuit acknowledged that the patentee normally bears the burden of proving infringement, it crafted an exception for the declaratory-judgment actions initiated by the patent licensee where the license prevents the patentee (i.e., licensor) from bringing an infringement counterclaim. In such an action, the Federal Circuit held, the licensee bears the burden of proof.
Supreme Court’s Decision

Medtronic obtained certiorari, and the Supreme Court now reversed the Federal Circuit. In a unanimous opinion written by Justice Breyer, the Court held that the burden of proof in a declaratory-judgment patent action “is with the patentee, just as it would be had the patentee brought an infringement suit.” The Court observed pointedly that its conclusion was rooted in “[s]imple legal logic, resting upon settled case law.” As the Court explained, it is “well established that the burden of proving infringement generally rests upon the patentee,” and the Declaratory Judgment Act is a purely procedural device that does not alter the parties’ substantive rights. Because the burden of proof is a “substantive” aspect of a claim,” it remains with the patentee in a declaratory-judgment action.

The Court noted that its conclusion made practical sense. Most significantly, in the Court’s view, placing the burden on the alleged infringer could result in uncertainty. As the Court explained, if the patent licensee were to bear the burden of proof, the licensee could lose a declaratory judgment suit in a close case. Yet, if the licensee were to continue the allegedly infringing behavior, forcing the patentee to bring a patent infringement action, the patentee (who would bear the burden of proof at that stage) could lose that action. Because of the burden shifting, the initial declaratory-judgment suit would not have a preclusive effect in the later infringement action, depriving the declaratory-judgment procedure of its utility and creating “uncertainty among the parties and others who seek to know just what products and processes they are free to use.”

The Court also emphasized that placing the burden on the alleged infringer would unnecessary complicate patent litigation. The alleged infringer would be forced to “negate every conceivable infringement theory,” without knowing the patent-holder’s exact theory of infringement. Finally, Justice Breyer stressed that shifting the burden would make the declaratory-judgment procedure less attractive as a method of resolving disputes about a patent’s scope. Such a result, he explained, would be contrary to what the Supreme Court intended in its earlier MedImmune, Inc. v. Genentech, Inc. decision, which enabled a patent licensee to challenge a patent validity’s in a declaratory-judgment action without stopping royalty payments (and, consequently, risking liability for patent infringement).

Practical Implications

The Supreme Court’s decision has now resolved conclusively that the burden of proof remains with the patentee, even in a declaratory-judgment challenge to the patent initiated by the patent licensee. Unlike the Federal Circuit, the Court elected not to limit its holding to the particular facts of this case, but instead to issue a broad ruling that will apply to all patent declaratory-judgment actions.

The Court’s decision will make it easier for patent licensees to seek declaratory judgment of non-infringement against the patentees-licensors. Although the burden-allocation rule may be decisive only where the evidence is in relative equipoise, it could make a difference in a close case. Moreover, the burden-allocation rule may influence the procedure of the declaratory-judgment litigation. District courts often require the party with the burden of proof — now, invariably, the patentee — to be the first to set forth its contentions with respect to infringement.

Most importantly, as we noted in our prior alert on this case, companies that license their intellectual property portfolios — and, in particular, companies that enter into a licensing arrangement to settle a patent dispute — may consider taking steps to reduce any possible incentives for the licensees to bring declaratory-judgment actions. Specifically, the patent owners may consider the following when structuring their licensing arrangements or dispute-settlement agreements:
Making the royalty obligations independent from infringement, such as requiring that such licenses be fully paid-up upfront or structuring payments as a percentage of net sales.

Providing for an automatic increase of the royalty payments in the event the licensee brings a declaratory-judgment action against the licensor.

Specifying that the filing of a declaratory-judgment action would represent a breach of the license agreement, permitting the patentee to seek appropriate remedies allowed by patent law (such as damages and injunctive relief).

Providing for license termination if the licensee seeks to reopen issues resolved by the license agreement, permitting the patentee to bring an infringement action.

If you have any questions concerning these developing issues, please do not hesitate to contact any of the following Paul Hastings Washington, D.C. lawyers:

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3 Medtronic, slip op. at 4-6. As a preliminary matter, the Court rejected a jurisdictional challenge raised by one of MVF’s amici, which argued that the Federal Circuit lacked subject matter jurisdiction because the action that MVF could have brought in the absence of a declaratory-judgment procedure would be not a patent infringement action, but a breach of contract action. Id. at 4. The Court disagreed with this characterization, explaining that the coercive action nevertheless would be considered a patent infringement suit, because the patent law would supply the cause of action. Id. at 5-6.
4 Id. at 6.
5 Id.
6 Id. at 7.
7 Id. at 7-8.
8 Id. at 8.
9 Id. at 8-9 (discussing 549 U.S. 118, 129-34 (2007)).