



BURDEN OF PROOF: US SUPREME COURT BACKS LICENSEES

The US Supreme Court has again reversed a Federal Circuit decision, this time over burden of proof, says Matthew Nielsen.

What would you say to (i) limiting your liability for patent infringement by obtaining a licence that establishes a royalty rate and prevents the owner from obtaining an injunction, and then (ii) asserting in court that the patent is invalid and not infringed so you might ultimately pay the patent owner nothing?

Potentially, it's not a bad approach.

The Supreme Court gave further incentive to aggressive strategies such as this in January in *Medtronic, Inc v Mirowski Family Ventures, LLC*. Relying on well-settled law and the public

“MIROWSKI, AS THE PARTY ASSERTING INFRINGEMENT, BORE THE BURDEN OF PROVING INFRINGEMENT, AND MIROWSKI FAILED TO PROVE INFRINGEMENT EITHER LITERALLY OR UNDER THE DOCTRINE OF EQUIVALENTS.”

interest in limiting patents to their proper scope, the court held that patent owners bear the burden of persuasion when a licensee raises the issue of non-infringement in a declaratory judgment action. This underscores the need for patent owners in licence negotiations to consider the potential for later declaratory judgment actions, and how shrewd licensees will consider bringing such actions in appropriate circumstances.

Procedural history

Medtronic licensed several patents covering implantable heart stimulators from Mirowski Family Ventures. Under the licence, Mirowski could notify Medtronic of new Medtronic products that Mirowski believed infringed the licensed patents, whereupon Medtronic had the option to: (i) pay royalties; (ii) seek a declaratory judgment of non-infringement, but simultaneously pay royalties such that it would avoid a breach of the licence (the parties later agreed Medtronic could deposit royalties in an escrow account); or (iii) pay nothing, at which point Mirowski could terminate the licence and sue Medtronic for infringement.

Years later, Medtronic developed new products that Mirowski said infringed its patents. Medtronic disagreed, and responded by depositing royalties in an escrow account and suing Mirowski in federal district court for a declaratory judgment of noninfringement and invalidity.

Facts such as these, where the licensee continues paying royalties but contends a licensed patent is not infringed or is invalid, create a dispute sufficient for federal courts to have declaratory judgment jurisdiction under the Supreme Court's decision in *MedImmune, Inc v Genentech, Inc* (2007).

After a bench trial, the district court ruled that Mirowski, as the party asserting infringement, bore the burden of proving infringement, and that Mirowski failed to prove infringement either literally or under the doctrine of equivalents.

On appeal, the US Court of Appeals for the Federal Circuit vacated the district court's non-infringement judgment, holding that Medtronic, as the declaratory judgment plaintiff, bore the burden of proving non-infringement. The court acknowledged that the patent owner typically bears the burden, but that in a declaratory judgment action where the “continued existence of the licence precludes the very infringement counterclaim that would normally impose the burden of proving infringement on the patentee,” the licensee bears the burden.

The Supreme Court's decision

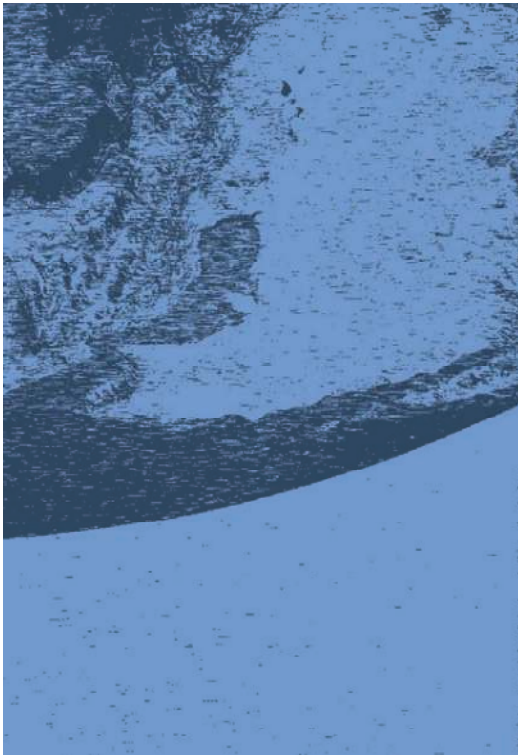
In a unanimous (9–0) decision, the Supreme Court reversed, holding that “when a licensee seeks a declaratory judgment against a patentee to establish that there is no infringement, the burden of proving infringement remains with the patentee”.

“Simple legal logic,” the court said, “resting upon settled case law, strongly supports our conclusion.” The court boiled that down to three legal propositions: (i) the burden of proving infringement generally rests upon the patent owner; (ii) declaratory judgment jurisdiction is procedural, leaving substantive rights unchanged; and (iii) the burden of proof is a substantive aspect of a claim.

The court then discussed how “practical considerations” lead to the same conclusion, focusing on the negative impact (that the court perceived) a burden shift would have on licensees asserting non-infringement. A burden shift could lead to situations where each side, in separate actions, failed to satisfy the burden of proof, “creating uncertainty among the parties and others who seek to know just what products and processes they are free to use.”

“It could also at least on occasion, create unnecessary complexity by making it difficult for the licensee to understand upon just what theory the patentee's infringement claim rests.” In addition, a burden shift “makes the declaratory judgment procedure—compared to, say, just refusing to pay royalties—disadvantageous.”

The court rejected the argument that placing the burden on patent owners would permit a licensee “at its sole discretion—to force the patentee into full-blown patent infringement litigation.” There must still be a genuine dispute, the court said, and, more important than any burden on the patent



owner, the public has a “paramount interest in seeing that patent monopolies . . . are kept within their legitimate scope,” and “licensees may often be the only individuals with enough economic incentive to litigate questions of a patent’s scope,” which weigh against a burden shift.

Where does this leave patent owners and licensees?

Medtronic has an impact on a relatively narrow category of lawsuits—suits brought by non-breaching licensees under *MedImmune*. And many people already thought patent owners always bear the burden of proving infringement, even when raised in a declaratory judgment action. But *Medtronic* may provide licensees with a little more incentive, particularly where the benefits substantially outweigh the costs, to seek declaratory judgments of non-infringement.

Under *MedImmune*, a licensee could already do this without first breaching the licence, which would otherwise expose it to potential liability (if the licensee lost in court) for increased damages for wilful infringement, the patent owner’s attorney’s fees if the case were “exceptional,” and an injunction if damages were an inadequate remedy to the patent owner. And now, under *Medtronic*, it’s settled that the patent owner in a *MedImmune* declaratory-judgment action bears the burden of persuasion on infringement, which means the patent owner must prove the licensee’s product or process satisfies each claim limitation either literally or under the doctrine of equivalents. This

reinforces how, in certain circumstances, it may be a sensible approach for a licensee to seek a declaratory judgment of non-infringement.

Patent owners should remain mindful of the potential for such actions, particularly in disputes over whether royalties should be paid for later-generation products. Patent owners with negotiating power may require that licensees provide advanced disclosure of all bases for assertions of invalidity or noninfringement, and an option to terminate the licence if the licensee fails to comply. Patent owners may also require, provided they prevail in litigation, reimbursement for their attorney’s fees and costs, and additional payments if licensees seek to maintain their licenses.

However, such provisions must withstand judicial scrutiny, and the courts have struck down provisions that bar or penalise challenging a patent’s validity. This practice goes back to *Lear, Inc v Adkins* (1969), which the court cited in *Medtronic*, where the court held licensees are not estopped from later challenging the validity of licensed patents (and struck down as unenforceable a provision requiring ongoing royalty payments even if the licensed patent was held invalid).

A recent instance of this was in *Rates Technology Inc v Speakeasy Inc* (2012), where the Second Circuit applied *Lear* in holding that a no-challenge provision in a pre-litigation “settlement” agreement was unenforceable (as opposed to a post-litigation agreement in combination with a court judgment given *res judicata* effect).

The direction of the Supreme Court

Does *Medtronic* tell us anything about how the Supreme Court will rule in future patent cases? It’s interesting that the court, in ruling on which party bears the burden of persuasion on infringement, emphasised the importance of limiting patents to their legitimate scope (drawing on its reasoning in *Lear*) and potential public uncertainty about the scope of patents.

Somewhat along those lines, the court has weakened patents in cases such as *Ass’n for Molecular Pathology v Myriad Genetics, Inc* (2013) (genomic DNA not patent-eligible), *Mayo Collaborative Services v Prometheus Labs, Inc* (2012) (method involving administration of a prior-art drug and measuring a metabolite not patent-eligible), *KSR Int’l Co v Teleflex Inc* (2007) (common sense may be evidence of obviousness), and *eBay Inc v MercExchange, LLC* (no automatic injunctions in patent cases).

But not all of the court’s recent decisions have weakened patents. In *Kappos v Hyatt*, (2012), the court held that the only limits on a patent applicant’s introduction of new evidence in a 35USC §145 district court action (to review an adverse decision of the Patent Office in *ex parte* patent prosecution) are the limits imposed by the Federal Rules of Evidence and Civil Procedure. And in *Microsoft Corp v i4i Limited P’ship* (2011), despite much speculation that the outcome would be otherwise, the court upheld the long-standing rule that clear and convincing evidence is required for proving invalidity (as opposed to a lower preponderance-of-the-evidence standard), even regarding prior art not considered by the Patent Office.

Decisions like these suggest the Supreme Court is attempting—borrowing the words of Chief Justice Roberts—to “limit itself to calling balls and strikes”, with *Medtronic* being just the latest example. ■

Disclaimer: The information in this article is for informational purposes only and is not legal advice or a substitute for obtaining legal advice from an attorney. Views expressed are those of the author and should not be attributed to Marshall, Gerstein & Borun LLP or its clients.

Matthew Nielsen is a partner at Marshall, Gerstein & Borun. He can be contacted at: mnielsen@marshallip.com



Matthew Nielsen is a partner at Marshall Gerstein & Borun LLP’s Chicago office. He has extensive experience prosecuting patent litigations, and representing clients in the biotechnology and pharmaceutical fields. He has served as trial and appellate counsel for ICOS (a subsidiary of Eli Lilly) in a seven-day bench trial and subsequent appeal.