

Keywords: burden of persuasion; declaratory judgment regarding infringement

General: The Supreme Court rejects a burden-shifting rule established by the Federal Circuit, holding that a burden of proving infringement remains with the patentee in cases where licensees seek a declaratory judgment against a patentee to establish non-infringement.

Medtronic, Inc. v. Mirowski Family Ventures, LLC.
571 U.S. ____ (Supreme Court 2014)
Decided January 22, 2014

I. Facts

Medtronic, Inc. designs, makes, and sells medical devices. Mirowski Family Ventures, LLC, owns patents relating to implantable heart stimulators. In 1991 Medtronic and Mirowski entered into an agreement permitting Medtronic to practice certain Mirowski patents in exchange for royalty payments. The agreement provided that, if Mirowski gave notice to Medtronic that a new Medtronic product infringed a Mirowski patent, Medtronic had a choice of either a) curing the non-payment of royalties or b) pay the royalties and challenge the assertion of infringement through a declaratory judgment action.

In 2006, the process for resolving disputes among the parties was slightly modified. The modification allowed Medtronic to accumulate disputed royalties in an escrow account, if Medtronic chose to pursue a declaratory judgment action challenging infringement. In such a case, the prevailing party in the declaratory judgment action would receive the royalties.

In 2007, Mirowski notified Medtronic that it believed seven new Medtronic products violated various claims contained in two of its patents. Medtronic brought a declaratory judgment action in Federal District Court, seeking a declaration that its products did not infringe Mirowski's patents and that the patents were invalid. As provided in the agreement between the parties, Medtronic paid all relevant royalties into an escrow account.

At trial, the District Court believed that Mirowski, as the party asserting infringement, bore the burden of proving infringement. The court found for Medtronic, holding that Mirowski had not satisfied its burden of proof of infringement.

Mirowski appealed, questioning the District Court's assertion that the patentee bore the burden of proof. The Federal Circuit disagreed with the District Court's placement of the burden of proof of infringement on the patentee. Specifically, the Federal Circuit shifted the burden of persuasion to Medtronic, stating that while a patentee normally bears the burden of proof, in situations where the patentee is a declaratory judgment defendant and is foreclosed from asserting an infringement counterclaim by the continued existence of a licensing agreement, the party seeking the declaratory judgment bears the burden of persuasion.

Medtronic sought certiorari, asking the Supreme Court to review the Federal Circuit's rule regarding shifting the burden of persuasion. The Supreme Court granted cert.

II. Issue

Whether the burden of proof shifts when the patentee is a defendant in a declaratory judgment action and the plaintiff (the potential infringer) seeks a judgment that he does not infringe the patent.

III. Discussion

No. In a 9-0 decision, the Supreme Court held that in declaratory judgment actions, the burden of persuasion is with the patentee, just as it would be had the patentee brought an infringement suit.

The Supreme Court reasoned that their decision is strongly supported by three settled legal propositions. First, a patentee ordinarily bears the burden of proving infringement. Second, the operation of the Declaratory Judgment Act is only procedural, leaving substantive rights unchanged. Third, the burden of proof is a substantive aspect of a claim. The Court suggested that “[t]aken together these three legal propositions indicate that, in a licensee’s declaratory judgment action, the burden of proving infringement should remain with the patentee.”

In their analysis, the Court also pointed to several policy considerations leading to the same conclusion. First, the Court noted that burden-shifting could create postlitigation uncertainty about the scope of the patent. For example, in situations where infringement evidence is inconclusive, the alleged infringer may lose a declaratory judgment action because he failed to prove noninfringement. In a subsequent infringement action, the patentee might lose, because the evidence is inconclusive. Accordingly, both sides may lose as to infringement, leaving the infringement question undecided and creating uncertainty regarding patent scope. Thus, the declaratory judgment suit would fail to achieve its object: “to provide ‘an immediate and definitive determination of the legal rights of the parties.’”

The Supreme Court also noted that shifting the burden of persuasion to the declaratory judgment plaintiff can “create unnecessary complexity by making it difficult for the licensee to understand upon just what theory the patentee’s infringement claim rests.” The Court reasoned that “a patent holder is in a better position than an alleged infringer to know, and to be able to point out, just where, how, and why a product (or process) infringes a claim of that patent.” Shifting the burden may result in the declaratory judgment plaintiff having to negate every conceivable infringement theory.

Additionally, the Court stated that the purpose of the Declaratory Judgment Act was to “ameliorate the dilemma posed by putting one who challenges a patent’s scope to the choice between abandoning his rights or risking suit.” The Court indicated that burden shifting, in this case, would require Medtronic to face this precise dilemma. The Court reasoned that the Federal Circuit’s burden shifting rule “create[s] a significant obstacle to use of that action,” making the declaratory judgment procedure disadvantageous over just refusing to pay royalties.

Several arguments contrary to the Court’s decision were also rejected. First, the Court found declaratory judgment suits as a further exception to the *Schaffer v. Weast* “ordinary default rule,” which places upon the plaintiffs the “risk of failing to prove their claims.” The Court noted that *Schaffer* was not a declaratory judgment suit and that the ordinary default rule “does not place the burden upon a litigant of establishing facts peculiarly within the knowledge of his adversary.”

Second, the Court rejected a notion that the Federal Circuit’s rule was valid because it only applied to “the limited circumstance when an infringement counterclaim by a patentee is foreclosed by the continued existence of a license.” The Court stated that “the fact that a rule’s scope is limited cannot, by itself, show that the rule is legally justified.”

Third, the Court also rejected a policy argument that not employing the Federal Circuit’s rule will burden patent owners by permitting a licensee to force the patentee into full-blown patent-infringement litigation. The Court reasoned that “litigation can occur only in the presence of a genuine dispute ‘of sufficient immediacy and reality’ about the patent’s validity or its application.” In the instant case, Mirowski “set the present dispute in motion by accusing Medtronic of infringement.”

IV. Conclusion

The Supreme Court reversed the Federal Circuit’s judgment, holding that case law and policy considerations strongly support placing the burden of persuasion in patent infringement declaratory judgment actions on the patentee.