

IP Alert: Medtronic v. Boston Scientific – Supreme Court Appears Prepared to Reverse the Federal Circuit on the Burden of Persuasion in Declaratory Judgment Actions Between Patent Owners and Licensees

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Medtronic v. Boston Scientific – Supreme Court Appears Prepared to Reverse the Federal Circuit on the Burden of Persuasion in Declaratory Judgment Actions Between Patent Owners and Licensees

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On Tuesday, Nov. 5, 2013, the Supreme Court heard oral arguments in *Medtronic v. Boston Scientific* to determine whether, in a declaratory judgment action brought by a patent licensee, the patent owner bears the burden to prove infringement (as is the case in all other patent litigation), or whether instead the licensee bears the burden to prove that its products do not infringe the licensed patent. The Court appeared to decidedly favor Respondent Medtronic's position that, contrary to the Federal Circuit holding below, the burden of persuasion properly rests on the patent owner, rather than the licensee.

Declaratory Judgment in the Patent Licensing Context of MedImmune

The Declaratory Judgment Act (DJA) permits federal courts to “declare the rights and other legal relations” of parties where “a substantial controversy [exists] between parties having adverse legal interests, of sufficient immediacy and reality.” *Maryland Cas. Co. v. Pac. Coal & Oil Co.*, 312 U.S. 270, 273 (1941). In the typical patent infringement context, the DJA allows a potential infringer to ascertain the scope of a patent owner's right to exclude prior to the

occurrence of any substantial injury, and thus avoid the risk of liability in proceeding with potentially infringing conduct. If, however, the patentee and potential infringer are parties to a license agreement, that license eliminates any risk that the patent owner will sue the licensee for infringement, and consequently alters the parties' risks and the existing controversy.

In *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 129-134 (2007), the Supreme Court held that patent licensees in such circumstances may nonetheless seek declaratory judgment that the licensed patent is invalid or not infringed by the licensee's products. The Court reasoned that licensees face a sufficient threat of liability should they stop paying the coerced royalties, and therefore may utilize DJA actions to resolve the parties' disputed legal rights without risking liability. In the wake of *MedImmune*, the question naturally followed: in these situations, who has the burden to demonstrate whether the patent covers the product(s) in question?

Typically, a patentee alleging infringement bears the burden of persuasion. In DJA actions, courts create a hypothetical coercive action that corresponds to the DJA action; and place the burdens according to that hypothetical action. Thus, if a potential infringer seeks declaratory relief of non-infringement, the burden of persuasion falls on the declaratory-defendant patentee who would normally bear that burden in a corresponding infringement action. Yet, when the current *Medtronic v. Boston Scientific* action reached the Federal Circuit, a three-judge panel of Judges Lourie, Linn and Prost carved out an exception, holding that a licensee seeking to show non-infringement bears the burden of proving that the patents do not cover the allegedly infringing products. The licensee, the Federal Circuit opined, is seeking to change the status quo and is the only party seeking relief, and thus bears the burden of persuading the court that relief is justified.

Tuesday's Arguments Before the Supreme Court

On Tuesday, and in briefing, Respondent-patentee Boston Scientific argued that the Federal Circuit was correct to place the burden on the licensee. Boston Scientific's argument was straightforward: the DJA action here does not ask whether the product-at-issue infringes the licensed patent (since a licensee cannot be an infringer), but instead asks whether the licensed patent has "claim coverage" over the allegedly infringing product. Thus, Respondent argued, the patentee may not, and did not, counterclaim for infringement: it seeks no relief from the Court. Accordingly, the burdens as applied in infringement actions are irrelevant, and, Respondent concluded, the Court is bound by the general rule that the plaintiff who seeks to change the present state of affairs, i.e. the licensee, bears the burden of persuasion.

Petitioner-licensee Medtronic countered with strong precedential, statutory and practical arguments, first noting that the burdens of *MedImmune*-type DJA actions should mirror the corresponding patent infringement actions where the patent owner bears the burden of proof. Petitioner argued that the DJA, which is strictly procedural, cannot alter a burden of proof, a substantive issue; and shifting the burden to licensees would frustrate Congress' intention of providing potential infringers with an accurate, simple means for ascertaining the extent of the patentee's right to exclude. Additionally, Medtronic effectively argued that different burdens between DJA actions and infringement actions would eviscerate the claim preclusive effect of declaratory judgments, impairing finality and creating judicial waste. Medtronic pointed out that licensees who failed to carry their burden of non-

infringement in a DJA action could simply continue their conduct and force the patentee to file an infringement action where the patentee would bear the burden, forcing the court to re-litigate the entire case.

The Supreme Court overwhelmingly favored Petitioner Medtronic's position (shared by the majority of amici) and appeared fully prepared to overturn the Federal Circuit. The Justices received Petitioner Medtronic's arguments with little debate, posing questions only to confirm their understanding of the practical effects of placing the burden on the patent owner, and allowing Mr. Waxman and Mr. Gannon lengthy, mostly uninterrupted opportunities to explain.

Mr. Neustadt for the Respondent, on the other hand, faced a significantly more active bench as all but Justices Thomas and Alito openly voiced their opposition to Respondent's position. Justice Scalia repeatedly asked Respondent how this action differed from other DJA actions that similarly preclude counterclaims by the declaratory-defendant; and also focused on the judicial waste that would result if the Court shifted the burden of persuasion and eliminated the benefit of claim preclusion. Justices Breyer and Sotomayor strongly contested Boston Scientific's distinction between "claim coverage" and "infringement," and ultimately appeared unconvinced.

The Supreme Court is expected to issue a ruling in early 2014, and barring any sudden shifts in perspective by the Justices, the case seems destined for reversal.

Background

Petitioner Medtronic designs and produces cardiac resynchronization therapy (CRT) devices that continuously coordinate contractions of the left and right ventricles of the heart, significantly improving the heart's pumping ability and reducing the risk of heart failure. Medtronic and Boston Scientific (via its predecessors in interest) entered into a set of licensing agreements, under which Boston Scientific would inform Medtronic of any contentions of infringement of the licensed patents, and Medtronic could challenge those assertions through a declaratory judgment action. Eventually, Medtronic filed such this declaratory action, and each party argued that the other carried the burden of persuasion as to whether the licensed patent covered the allegedly infringing products.

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