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PATENTS

A recent ruling by the Federal Circuit may have weakened the presumption that issued patents are valid.

The Presumption of Validity: A New Crack in the Armor?

By PETER J. KAROL

In the dense fog of patent litigation, one pole star has long remained uniquely settled and clear: the rule that every issued patent is presumed valid until proven otherwise by clear and convincing evidence. Even that bright star shifted and dimmed a bit recently, however, when the Federal Circuit addressed a lesser known provision of the Patent Act in a quietly profound holding last month, *PowerOasis Inc. v. T-Mobile USA, Inc.*, — F.3d —, 2008 WL 1012561, 86 USPQ2d 1385 (Fed. Cir., April 11, 2008) (75 PTCJ 654, 4/18/08).

PowerOasis: Not a Simple § 120 Invalidity Ruling. In *PowerOasis*, the court analyzed 35 U.S.C. § 120, the section of the statute that entitles inventors to claim the benefit of an earlier application date for subsequent applications. That provision is most commonly associated with continuation practice, whereby an inventor files one or more later “continuation” applications that look and read just like the original application, but contain

different (often, broader) claims at the end. See generally, *Transco Prods. Inc. v. Performance Contracting Inc.*, 38 F.3d 551, 555, 32 USPQ2d 1077 (Fed. Cir. 1994).

Section 120 also, however, applies to continuation-in-part applications. A CIP application is a continuing application containing a portion or all of the disclosure of an earlier application together with added matter not present in that earlier application. *Id.* In other words, a CIP is the same as a continuation application except that in a CIP, by definition, new background material has been added to cover more territory in the specification (be it new text in the abstract, background, summary, or descriptions, or new drawings). *PowerOasis*, 2008 WL 1012561 at n. 3.

Section 120, by reference to 35 U.S.C. § 112, determines which, if any, claims of a CIP are entitled to the earlier, original, filing date. Specifically, a patent applicant is entitled to the benefit of the filing date of an earlier filed application only if the disclosure of the earlier application provides support for the claims of the later application. *PowerOasis*, 2008 WL 1012561 at *5.

For example, the disclosure must enable the full scope of the claims. In addition, in order to satisfy the so-called “written description requirement” of Section 112, the disclosure of the prior application must convey with reasonable clarity to those skilled in the art that, as

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of the filing date sought, the inventor was in possession of the invention. *Id.*

To paraphrase a bit, one asks: Would someone of ordinary skill in the field, back when the original application was filed, have assumed that the inventor always knew of the broader invention, even if he didn't put it in writing at that time? It is a claim-by-claim analysis, which may be true for some claims but not others. *Id.* at n. 4.

In practice, new material in a CIP will often be added to cover products that have recently entered the marketplace. For example, in the *PowerOasis* case, the technology at issue in the litigation involved now familiar wireless "hotspots."

In 1997, the plaintiff, *PowerOasis*, applied for a patent on "vending machines" for telecommunications (e.g., Internet) access. *Id.* at *1. The original application depicted a credit card swipe unit, like one might see at a supermarket.

The unit, which could be wall-mounted at an airport terminal or the like, also had plugs for power cords and a telecommunications channel (e.g., a modem), and lights or a monitor to guide the user through the payment and connection process. A person on the go (say, at an airport) would physically bring her laptop to the vending machine to access the Internet, and would interact with the actual vending machine to make a payment and monitor the process of the transaction. *Id.* at *7-9.

In 1999, however, the predecessor to T-Mobile went public with a wireless version of technology to connect road warriors to the Internet. A customer could connect to and pay for the technology through her laptop alone, without interfacing with a physical vending machine terminal. *Id.* at *2.

In 2000, perhaps to cover this shift in the marketplace to wireless communications, *PowerOasis* filed a CIP application with new matter added. *Id.* at *6-7. The new language was directed to an embodiment where "the user interface can be present inside or uploaded to the user's laptop or other device thereby obviating the need for an interface within the vending machine unit." In other words, the payment and monitoring would occur on the laptop itself, not at a fixed stand in the airport with flashing lights and a display. *Id.*

PowerOasis also expanded the claim language, in turn, to cover a configuration that does not use a physical machine for the vending transaction. *Id.* at *8. Thus, its eventual patent claims covered the T-Mobile HotSpot Network even though that configuration was in use before the later *PowerOasis* application was filed.

PowerOasis ultimately went on to sue T-Mobile on its conveniently broadened CIP, but not on the original, narrower, patent. *Id.* at *1.

On its face, this story doesn't seem all that fair. The district court agreed, granting summary judgment of invalidity for the defendant, T-Mobile. *Id.* at *2.

The court reasoned that there was no dispute that the intervening wireless technology from 1999 would anticipate the patent if this technology was deemed prior art. It then found that the plaintiff had not met its burden under Section 120 of establishing an earlier priority date. Thus, its patent was invalid. *Id.* at *2-3. A natural result? Not exactly.

Shifting the Burden? The catch is the presumption of validity, codified at 35 U.S.C. § 282. It has long been the rule that the factual basis for invalidity must be proven by the *defendant* by clear and convincing evidence. *Am. Hoist & Derrick Co. v. Sowa & Sons*, 725 F.2d 1350, 1360, 224 USPQ 520 (Fed. Cir. 1984); *Ralston Purina Co. v. Far-Mar-Co Inc.*, 772 F.2d 1570, 1573, 227 USPQ 177 (Fed. Cir. 1985). Underlying the burden is the idea that the Patent and Trademark Office has reviewed the patent, and is presumed to know how to do its job. *PowerOasis*, 2008 WL 1012561 at *4; *Am. Hoist*, 725 F.2d at 1359.

Historically, the burden and the clear and convincing standard attaching to the presumption of validity applied equally when a defendant challenged the validity of CIP patents for wrongly claiming a priority date under Section 120. See *Ralston*, 772 F.2d at 1573-74; *Cargill Inc. v. Sears Petroleum and Transport Corp.*, 388 F. Supp. 2d 37, 58-59 (N.D.N.Y. 2005).

Although arguably consistent with the general presumption of validity, this led to a particularly uncomfortable result in Section 120 cases. Specifically, unlike other aspects of the validity question (such as the definiteness of the claims), the issue of entitlement to an earlier priority date is usually never reviewed in the first place by the PTO. *PowerOasis*, 2008 WL 1012561 at *4 and n. 4. The PTO's own rules, in fact, have long instructed an examiner not to address this issue in most cases. *Id.*¹

Thus, in the absence of an interference between inventors or some other exceptional occurrence during prosecution, entitlement to Section 120 priority is often punted to the district courts to decide in litigation *for the first time*. As in the *PowerOasis* case, the question can often be critically important when intervening art (art made public between filing dates) would invalidate the patent.

This presumption has posed problems for parties challenging the validity of CIP patents, even where the claim to an earlier priority date was weak. In practical litigation terms, the burden meant that a defendant in a Section 120 battle might find it difficult to prevail at summary judgment, even though no one at the PTO had ever reviewed the issue. See, e.g., *Pfizer v. Perrigo Co.*, 933 F. Supp. 377, 379, 382 (S.D.N.Y. 1996) (denying defendant's motion for summary judgment on effective filing date issue under *Ralston*). This brought with it the expense and uncertainty of trial and, trial's steady companion, higher settlement values.

In all, under *Ralston* and its progeny, the district court's holding in *PowerOasis* seemed potentially flawed. Indeed, on appeal *PowerOasis* argued that it was error for the district court to give it the burden of demonstrating Section 120 priority. 2008 WL 1012561 at *3.

¹ Under the proposed new PTO rules, this longstanding practice would be amended to require a CIP applicant to identify at the outset which claims it considers entitled to an earlier priority date. See *Changes to Practice for Continued Examination Filings, Patent Applications Containing Patentably Indistinct Claims, and Examination of Claims in Patent Applications*, 72 Fed. Reg. 46716 (Aug. 21, 2007) (Claims and Continuations Final Rule). Due to litigation challenges in the federal courts, however, those rules have not gone, and may never go, into effect (75 PTCJ 587, 4/4/08; 76 PTCJ 81, 5/16/08).

Confronted with the strong facts of the *PowerOasis* case, however, the Federal Circuit sided with T-Mobile. *Id.* at *5. Without actually overruling *Ralston*, the Federal Circuit limited *Ralston*'s application only to circumstances where the PTO has made a prior determination as to Section 120 priority (for example, during an interference proceeding). *Id.* at *4. It went on to hold that, where such a determination has not previously been made by the PTO, and where the defendant has introduced clearly anticipatory intervening art, the burden to establish Section 120 priority is on the patent owner. *Id.* at *5. Thus, it affirmed the district court's grant of summary judgment to T-Mobile. *Id.*

The court went to great lengths to assure any skeptical readers that, notwithstanding its opinion, the "presumption of validity" is alive and well as ever. It underscored, for example, that T-Mobile established by "clear and convincing evidence" that the intervening art anticipated. *Id.*

In *PowerOasis*, however, as in most Section 120 cases, it is often not even disputed that the intervening art anticipates, and thus would invalidate the patent if prior. The battle, rather, is over the effective filing date. And on that question, "The district court . . . correctly placed the burden on *PowerOasis* to come forward with evidence to prove entitlement to claim priority to an earlier filing date." *Id.* It is a rare day indeed when the Federal Circuit places any aspect of the burden of demonstrating validity on the patent owner, as it did here.

Interestingly, under the logic of *PowerOasis*, other sacred tenets of patent law appear potentially vulnerable. For example, in many run-of-the-mill patent cases, the defendant will introduce into evidence a prior art reference that was not before the examiner. The rule in such cases, emanating from the codification of the presumption of validity in Section 282, has been that the burden of demonstrating invalidity by clear and convincing evidence remains on the defendant. *Am. Hoist*, 725 F.2d at 1360.

It does not require a great leap from the reasoning of *PowerOasis*, however, to conclude that, perhaps, a defendant should not be made to demonstrate by clear and convincing evidence that prior art anticipates and invalidates, when such art was not before an examiner. After all, in the words of Judge Moore:

When neither the PTO nor the Board has previously considered priority, there is simply no reason to presume that claims in a CIP application are entitled to the effective filing date of an earlier filed application. Since the PTO did not make a determination regarding priority, there is no finding for the district court to defer to.

PowerOasis, 2008 WL 1012561 at *4. Substitute the term "the uncited reference" for "priority" in the last sentence, and move the issue to one of novelty or obviousness, and a bedrock principal of U.S. patent law could find itself on shakier ground.