



ARE Patent Law Alert: Federal Circuit Affirms PTO's Finding of Invalidity After Previously Finding Same Patent Not Invalid

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(May 21, 2012) On May 17, 2012, the U.S. Court of Appeals for the Federal Circuit ("Federal Circuit") clarified the different burdens of proof employed against a patent challenger in litigation in a Federal District Court and at the U.S. Patent and Trademark Office ("PTO") in a reexamination proceeding. *In re Baxter Int'l*, No. 2011-1073, 2012 U.S. App. LEXIS 9983 (Fed. Cir. May 17, 2012) ("*Baxter II*"). Significantly, as a result of these different burdens, the same patent which was upheld as not obvious in litigation, was thereafter found to be obvious at the PTO. *Baxter II* teaches an important lesson that choosing the right forum (or fora) to raise validity concerns with respect to a patent can be very important.

The Litigation

In 2006, Fresenius Medical Care Holdings, Inc. ("Fresenius"), a competitor to Baxter Int'l Inc. ("Baxter"), filed a declaratory judgment action of invalidity against Baxter's patent. See *Fresenius Med. Care Holdings, Inc. v. Baxter Int'l, Inc.*, No. C 03-1431 SBA, 2007 WL 518804 (N.D. Cal. Feb. 13, 2007) ("*Fresenius I*"). In *Fresenius I*, the district court held that the challenger had not established that Baxter's patent was obvious by clear and convincing evidence. The Federal Circuit affirmed the district court's decision. See *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, 582 F.3d 1288 (Fed. Cir. 2009) ("*Fresenius II*").

The PTO Proceedings

In parallel, Fresenius instituted an *ex parte* reexamination proceeding at the PTO based upon the same prior art that it had relied upon at trial. At the PTO, the Examiner ultimately found the patent obvious. The Federal Circuit's decision in *Fresenius II* issued following the Examiner's final rejection but before the Board reviewed the rejection. Upon review, the Board ultimately affirmed the Examiner's rejection. See *Ex parte Baxter Int'l, Inc.*, No. 2009-006493, 2010 WL 1048980 (B.P.A.I. Mar. 18, 2010) ("*Baxter I*").

Significantly, the Board, in *Baxter I*, discussed the holdings of the district court in *Fresenius I* and the fact that the Federal Circuit affirmed those findings in *Fresenius II*, but distinguished those findings to arrive at its contrary conclusion on validity. In particular, the Board relied upon the lower burden of proof required to invalidate a patent at the PTO: a challenger in a court of law need to prove that a claim is invalid by clear and convincing evidence, while an examiner need only establish by the preponderance of



the evidence that a claim is invalid at the PTO. The Board also relied upon the different breadth of claim construction applied to explain its result. The PTO applies the “broadest reasonable construction” of a claim during examination and reexamination, while a Court will apply a narrower claim construction. Thus, *Baxter I* concluded the same claims that were upheld in litigation, were nonetheless found to be invalid at the PTO.

***Baxter II* at the Federal Circuit**

On appeal, in *Baxter II*, the Federal Circuit in a split decision affirmed the Board’s Decision that the Baxter patent is invalid. The Federal Circuit noted that “this case is not about the relative primacy of the courts and the PTO, about which there can be no dispute.” *Baxter II*, 2012 U.S. App. LEXIS 9983, at *21. Rather, the majority concluded that “[b]ecause the two proceedings necessarily applied different burdens of proof and relied on different records, the PTO did not err in failing to provide the detailed explanation now sought by Baxter as to why the PTO came to a different determination than the court system in the Fresenius litigation.” *Id.* at *19-20.

In a dissenting opinion, Judge Newman argued that the majority wrongly disregarded the Federal Circuit’s own earlier ruling and allowed the PTO to nullify the decision. According to Judge Newman, while “reexamination . . . is an efficient and economical alternative to litigation in appropriate cases. . . . [i]t was not intended to undermine the finality of judicial process.” *Id.* at *33.

Practical Significance

This dispute illustrates the importance of selecting the right venue (a district court versus a post-issuance proceeding at the PTO) for a patent challenger to raise their dispute. Here, the PTO ultimately proved the best venue for Fresenius to challenge the Baxter patent. While the ultimate decision of whether to challenge a patent in a court of law or at the PTO depends upon many factors, including the type and quality of challenge being raised, *Baxter II* reinforces the importance of careful consideration of both options.

We continue to monitor key developments in patent law and encourage you to review the publications and events page of our firm website (www.arelaw.com) for more information. Please feel free to contact one of our firm’s attorneys to learn more.

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