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Fed. Circ. Says PTAB Wrongly Axed Fracking Patent In IPR

By **Ryan Davis**

Law360, New York (July 25, 2016, 8:04 PM ET) -- The Federal Circuit on Monday reversed the Patent Trial and Appeal Board's inter partes review decision invalidating a fracking patent, finding that the board wrongly put the burden of proof on the patent owner, rather than the challenger, in a rare total reversal of a PTAB ruling.

The appeals court said that the PTAB's final written decision was "replete with examples" where the board improperly required patent owner Magnum Oil Tools International Ltd. to disprove that its patent was obvious, rather than requiring petitioner McClinton Energy Group LLC to prove obviousness.

Moreover, McClinton's arguments were based on "mere conclusory statements" that cannot satisfy its burden of demonstrating that the patent was obvious, the court ruled.

"We agree with Magnum that the board improperly shifted the burden to it, as the patentee, to prove nonobviousness," the court said. "Because McClinton failed to separately meet its burden of establishing obviousness ... we reverse."

McClinton challenged Magnum's patent on technology used in hydraulic fracturing, commonly known as fracking. The patent covers a mechanism for inserting a plug to divide a wellbore so that different sections can be fracked at different times.

McClinton cited four prior art reference in its petition, arguing that the patent would be obvious in view of two different combinations of prior art references. The board instituted review based on only three of the references and ultimately concluded that the patent was invalid.

After the board issued its decision, McClinton settled with Magnum and agreed not to participate in the appeal. The U.S. Patent and Trademark Office intervened in the appeal to defend the board's decision.

Magnum argued on appeal that the board did not establish a case that the patent was obvious in view of a combination of those three references. The USPTO argued that when the board institutes an inter partes review, it necessarily finds that the petitioner has demonstrated a reasonable likelihood of success, so the burden of producing evidence of nonobviousness shifts to the patentee.

The Federal Circuit strongly disagreed, writing that the USPTO's argument is "directly at odds with our precedent" that the burden remains on the challenger. It said that adopting the USPTO's view would "introduce unnecessary confusion."

The court cited several examples in the decision where the board expected Magnum to explain — and faulted it for failing to explain — why an obviousness argument would not be applicable, improperly requiring Magnum to prove nonobviousness.

Further, the court found that McClinton merely made conclusory statements that it would be obvious to combine the prior art to arrive at the claimed invention, which is not sufficient for a finding of obviousness.

"The board's decision was premised on a legally incorrect standard for assessing obviousness, and the board's factual findings regarding the alleged motivation to combine lacked substantial evidence," the court concluded. "Accordingly, we reverse the board's decision."

Nathaniel St. Clair II of Jackson Walker LLP, an attorney for Magnum, said Monday that the company was pleased with the decision reversing the PTAB and was confident that the court would correct the board's error.

The decision "is a further endorsement of the validity of the ... patent and the novel technology that Magnum has diligently developed over the last several decades," he said. "The court provided some much-needed guidance regarding limits to the board's discretion, during the inter partes review process, which should help both petitioners and patent owners to obtain more predictable outcomes at the board."

The USPTO does not comment on litigation.

Judges Kathleen O'Malley, Pauline Newman and Raymond Chen sat on the panel for the Federal Circuit.

The patent-in-suit is U.S. Patent Number 8,079,413.

Magnum is represented by Nathaniel St. Clair II, John Jackson and Christopher Rourke of Jackson Walker LLP.

The USPTO is represented by Kristi Sawert, Thomas Krause, Scott Weidenfeller and Michael Forman of the agency's office of the solicitor.

The case is In re: Magnum Oil Tools International Ltd., case number 2015-1300, in the U.S. Court of Appeals for the Federal Circuit.

--Editing by Patricia K. Cole.

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