

Federal Circuit Patent Bulletin: *In re Magnum Oil Tools Int'l, Ltd.*

July 25, 2016

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On July 25, 2016, in *In re Magnum Oil Tools Int'l, Ltd.*, the U.S. Court of Appeals for the Federal Circuit (Newman, O'Malley,* Chen) reversed the Patent Trial and Appeal Board inter partes review decision that U.S. Patent No. 8,079,413, which related to oil drilling through use of hydraulic fracturing or "fracking", was obvious under 35 U.S.C. § 103. The Federal Circuit stated:

"In an inter partes review . . . , the petitioner shall have the burden of proving a proposition of unpatentability by a preponderance of the evidence." "[T]he burden of proof is on the petitioner to prove unpatentable those issued claims that were actually challenged in the petition for review and for which the Board instituted review." . . . "As an initial matter . . . there are two distinct burdens of proof: a burden of persuasion and a burden of production. The burden of persuasion 'is the ultimate burden assigned to a party who must prove something to a specified degree of certainty,' such as by a preponderance of the evidence or by clear and convincing evidence." A distinct burden, "[t]he burden of production may entail 'producing additional evidence and presenting persuasive argument based on new evidence or evidence already of record.'" "In an inter partes review, the burden of persuasion is on the petitioner to prove 'unpatentability by a preponderance of the evidence,' and that burden never shifts to the patentee." Indeed, "the Supreme Court has never imposed nor even contemplated a formal burden-shifting framework in the patent litigation context." We have noted that "a burden-shifting framework makes sense in the prosecution context," where "[t]he prima facie case furnishes a 'procedural tool of patent examination, allocating the burdens of going forward as between examiner and applicant.'" As the PTO concedes, however, that burden-shifting framework does not apply in the adjudicatory context of an IPR. . . .

The PTO incorrectly contends that "the burden of production—or the burden of going forward with evidence, shifts between the petitioner and the patent owner," as soon as the Board institutes an IPR. [I]n the context of establishing conception and reduction to practice for the purposes of establishing a priority date, the burden of production can shift from the patent challenger to the patentee. This is because a patent challenger has the burden of producing evidence to support a conclusion of unpatentability under § 102 or § 103, but a patentee bears the burden of establishing that its claimed invention is entitled to an earlier priority date than

an asserted prior art reference. In such a case, the shifting of the burden of production is warranted because the patentee affirmatively seeks to establish a proposition not relied on by the patent challenger and not a necessary predicate for the unpatentability claim asserted—effectively an affirmative defense. In the context of the present case, however, the notion of burden-shifting is inapposite because the patentee’s position is that the patent challenger failed to meet its burden of proving obviousness. Applying a burden-shifting framework here would introduce unnecessary confusion because the ultimate burden of persuasion of obviousness must remain on the patent challenger and “a fact finder must consider all evidence of obviousness and nonobviousness before reaching a determination.”

Where, as here, the only question presented is whether due consideration of the four Graham factors renders a claim or claims obvious, no burden shifts from the patent challenger to the patentee. This is especially true where the only issues to be considered are what the prior art discloses, whether there would have been a motivation to combine the prior art, and whether that combination would render the patented claims obvious. We thus disagree with the PTO’s position that the burden of production shifts to the patentee upon the Board’s conclusion in an institution decision that “there is a reasonable likelihood that the petitioner would prevail.” The PTO’s proposed burden shifting framework is also directly at odds with our precedent holding that the decision to institute and the final written decision are “two very different analyses,” and each applies a “qualitatively different standard.” . . . Furthermore, because of the “significant difference” between the standards of proof at institution and trial during an IPR, it is inappropriate to shift the burden to the patentee after institution to prove that the patent is patentable. . . .

“A party to an inter partes review . . . who is dissatisfied with the final written decision of the Patent Trial and Appeal Board under section 318(a) . . . may appeal the Board’s decision only to the United States Court of Appeals for the Federal Circuit.” Nowhere does the statute granting parties the right to appeal a final written decision in an IPR require that the party first file a request for rehearing before the Board, especially a rehearing of the initial institution decision. Instead, a party who is dissatisfied with the final written decision of the Board can elect to directly appeal that decision. Magnum may advance on appeal its argument concerning motivation to combine, since it raised this argument before the Board in the IPR. Thus, we reject the PTO’s contention that Magnum was required to raise the present challenge to the Board’s actions in a request for rehearing of the institution decision before it could challenge a final Board opinion relying on the same rationale given in the institution decision. As a practical matter, why would Magnum have had an incentive to seek reconsideration of an Institution Decision relying solely on *Lehr* when it believed *McClinton* ultimately would be unable to sustain its burden of proof based on that reference? Fleshing that out is what an IPR trial is for.

Because *McClinton* failed to separately meet its burden of establishing obviousness in view of *Lehr*, *Cockrell*, and *Kristiansen*, we reverse. The final written decision is replete with examples where, rather than require *McClinton* to prove its assertion of obviousness, the Board improperly shifted the burden to Magnum to disprove obviousness. [T]he Board expected Magnum to explain, and faulted Magnum for allegedly failing to explain, why an obviousness argument based on a first set of prior art references (*Alpha*, *Cockrell*, and *Kristiansen*) that the Board did not adopt would not be applicable to a second set of prior art references

(Lehr, Cockrell, and Kristiansen). Neither the Board nor the petitioner explained why borrowing the rationale for combining the first set of references equally applies to the second set of references, which was particularly necessary here where the two primary references plainly operate in different manners. This constituted an improper shifting of the burden to Magnum, the patentee, to prove that the claimed invention would not have been obvious. . . . Where, as here, it is clear that the Board did not require the petitioner to support its claim of obviousness by a preponderance of the evidence, we must reverse.