

UNITED STATES PATENT AND TRADEMARK OFFICE

BEFORE THE PATENT TRIAL AND APPEAL BOARD

OMRON OILFIELD & MARINE, INC.
Petitioner

v.

MD/TOTCO, A DIVISION OF VARCO, L.P.
Patent Owner

Patent No. 5,474,142
Issue Date: December 12, 1995
Title: AUTOMATIC DRILLING SYSTEM

Case IPR2013-00265

**PETITIONER'S MOTION REQUESTING REHEARING
PURSUANT TO 37 C.F.R. § 42.71 OF THE BOARD'S
DECISION TO NOT INSTITUTE TRIAL**

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Pursuant to 37 C.F.R. § 42.71, Petitioner Omron Oilfield & Marine, Inc. (“Petitioner”) respectfully requests rehearing of the Board’s decision to not institute *inter partes* review (Paper 11, dated October 31, 2013).

STATEMENT OF RELIEF REQUESTED

Petitioner seeks rehearing of the following grounds set forth in its Petition, and respectfully requests that the Board institute trial on these grounds:

Ground 2. Claims 1, 11, and 14 are obvious over Lindstad and Crake.

Ground 3. Claims 1, 11, and 14 are obvious over Lindstad and Brooks.

Ground 5. Claims 1, 11, and 14 are obvious over Warren and Brooks.

Ground 7. Claim 14 is obvious over Miller and Crake.

Ground 8. Claim 14 is obvious over Le Compte and Crake.

INTRODUCTION

In its decision to not institute trial, the Board found that Petitioner established a *prima facie* case of obviousness. Despite this finding, the Board rejected Petitioner’s obviousness combinations based *solely* on evidence of purported commercial success that Patent Owner developed through direct testimony in a civil litigation that did not involve Petitioner in any way.

In doing so, the Board abused its discretion by

(a) allowing Patent Owner to use trial testimony that is inadmissible hearsay under the Federal Rules of Evidence, which the Board must follow in *inter*

partes review proceedings (*see* Fed. R. Evid. 802-804; 37 C.F.R. § 42.62(a)) and inadmissible under the rules specifically promulgated for *inter partes* review because it did not take the form of an affidavit (*see* 37 C.F.R. § 42.53(a));

(b) reaching a factual conclusion about commercial success where Petitioner had no opportunity to rebut Patent Owner's evidence, and no access to the facts and data underlying the expert testimony that the Board relied on; and

(c) making a factual finding concerning commercial success that is not supported in the record.

Moreover, even considering the evidence, trial should have been instituted. The Petition demonstrated, and the Board agreed, that the Lindstad prior art reference was lacking at most one element—the “release” of the drill string. According to the Board, a blast hole drilling system (such as Lindstad) does not “release” a drill string into the borehole (like an oilfield drilling system) because it uses a motor to impart downward force (rather than just the force of gravity). Aside from this minor field-of-use distinction, Lindstad discloses all of the elements of the claims, including the touted use of drilling fluid pressure to regulate the rate of vertical movement of the drill string. Therefore, the Board misapprehended the strength of Lindstad when it found that the purported commercial success overcomes Petitioner's *prima facie* case of obviousness.

Although the Board did not address the disclosures of Petitioner's other

obviousness combinations, the strength of that art similarly withstands the purported evidence of commercial success.

Accordingly, the Board should grant rehearing, and institute trial based on Petitioner's obviousness grounds.

STANDARD OF REVIEW

The standard of review of a decision on a petition is abuse of discretion. 37 C.F.R. § 42.71(c).

ARGUMENT

I. The Board Overlooked the Fact That Patent Owner's Evidence of Secondary Considerations is Inadmissible

The Board should grant rehearing because Patent Owner's purported evidence of secondary considerations is inadmissible. In its decision, the Board found that the combination of Lindstad and Crake teaches all of the elements of claims 1, 11, and 14 of the '142 patent. (Decision at 12.) The Board also found that Petitioner's rationale for combining Lindstad and Crake justified a legal conclusion of obviousness. (*Id.*) However, the Board noted that Petitioner did not rebut the Patent Owner's evidence of commercial success, and found that the evidence of commercial success overcomes the *prima facie* case of obviousness. (*Id.* at 15-16.) Since the Board has determined that there is a *prima facie* case of unpatentability, the Board should institute the proceeding in the absence of that (inadmissible) evidence.

The Federal Rules of Evidence apply to an *inter partes* review proceeding. *See* 37 C.F.R. § 42.62(a) (“Except as otherwise provided in this subpart, the Federal Rules of Evidence shall apply to a proceeding.”). The testimony the Board relied upon is inadmissible hearsay under Federal Rules of Evidence 802-804.

Rule 802 provides that hearsay (evidence of out-of-court statements offered for their truth) is generally inadmissible. Rules 803 and 804 provide exceptions to this general rule and Fed. R. Evid. 804(b)(1) in particular provides an exception for “former testimony.” In order to rely on that exception, however, the proponent of the “former testimony” *must* establish that the witness is unavailable to testify in the present proceeding. *Id.* And, even if that is the case, the “former testimony” may only be offered against a party who had “an opportunity and similar motive to develop it by direct, cross-, or redirect examination.” *Id.*

Patent Owner has not established either of these prerequisites. Presumably, Patent Owner’s own expert in the Pason lawsuit is available to testify here. The Patent Owner has not attempted to demonstrate otherwise.

Regardless of the expert’s availability, however, the other prerequisite *cannot* be met because Petitioner did not have an opportunity to examine the expert in the Pason lawsuit. As such, the expert’s testimony is inadmissible hearsay in this proceeding. *See* Fed. R. Evid. 802(b)(1)(B).

In addition to being inadmissible under the Federal Rules of Evidence, the

testimony is inadmissible under 37 C.F.R. § 42.53(a). That subsection provides that “[u]ncompelled direct testimony must be submitted in the form of an affidavit.” *Id.* It is clear that § 42.53 applies even at the petition stage because it provides that “[u]ncompelled direct testimony may be taken at any time to support a *petition*, motion, opposition, or reply.” 37 C.F.R. § 42.53(b)(1) (emphasis added). Therefore, the trial testimony from the Pason lawsuit is improper for consideration on a decision to institute an *inter partes* review.

II. The Board Overlooked the Fact That Petitioner Did Not Have an Opportunity to Rebut Patent Owner’s Evidence of Secondary Considerations and Erred in Finding it Sufficient

In addition to being technically inadmissible, the Board should grant rehearing because Petitioner did not have an opportunity to rebut the secondary considerations proffered by Patent Owner, and because it is manifestly inadequate in any event. Notably, the evidence the Board relies on was submitted by Patent Owner in the second reexamination of the ’142 patent, which was not rebutted by the petitioner of that reexamination because the proceeding was *ex parte*.

Petitioner respectfully submits that the Board abused its discretion by overlooking or improperly disregarding the fact that the Petitioner had no opportunity to rebut the commercial success evidence and by relying on evidence (submitted by the Patent Owner only) that is entirely inadequate to establish commercial success of any *claimed invention* in any event.

The Patent Owner's evidence included a product brochure and testimony from the trial of *National Oilwell Varco, L.P. v. Pason Systems USA, Corp.*, Case No. 1:03-cv-02579 in the District of Colorado. (*See* Decision at 14-15.) With respect to the testimony, Petitioner was not a party to that action and did not otherwise have an opportunity to examine the witnesses who testified about the purported secondary considerations. The Board's decision hinges on facts that Petitioner has had absolutely no opportunity to contest.

Moreover, because Petitioner was not a party to the Colorado litigation, Petitioner has no access to whatever purported facts and data those witnesses relied on to support their testimony, and therefore could not even begin to discredit or rebut the testimony.

The Board relied on the direct examination of Patent Owner's own expert, who testified that (1) once installed, the Wildcat driller was almost never removed from a rig; (2) the sales of the Wildcat driller grew over time; and (3) the number of installations of the accused autodriller sold by Pason grew over time. (*See* Decision at 14-15.) For at least the following reasons, this testimony is inadequate to support the Board's secondary considerations finding, particularly given that the Petitioner had no opportunity cross examine the expert.

There is No Evidence That the Wildcat is Covered by Any Claim: With respect to the brochure, the record does not even show that the product is covered

by any claim of the '142 patent. If the Wildcat system is not covered by the claims, evidence pertaining to the system is necessarily irrelevant to the obviousness inquiry. *See J.T. Eaton & Co. v. Atlantic Paste & Glue Co.*, 106 F.3d 1563, 1571-1572 (Fed. Cir. 1997) (concluding that the commercial success could not be considered unless the product was covered by the patent claim at issue).

In *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 711 F.3d 1348, 1368 (Fed. Cir. 2013), cited in the decision, the patent owner was able to rely on secondary considerations because the witnesses “uniformly attributed [the] success to the patented features.” *Id.* at 1368. There is no such testimony here, as the brochure (Ex. 2020, 109) does not provide enough detail to determine that any claim actually reads on the Wildcat product, and Patent Owner failed to provide a claim chart or other analysis to establish that critical point. And the conclusory testimony from Patent Owner’s paid expert that “the features of this invention, the ability to use pump pressure was critical [to driving demand for the product]” is insufficient on its face to establish that any claim covered the Wildcat product, even if it were not (as discussed below) inadmissible hearsay.

Lack of Evidence Concerning Delayed Sales Growth: There is no explanation for the six years (1994 to 2000) that it took for the sales of the Wildcat to begin to increase (*see* Decision at 15) and Petitioner has had no opportunity to explore that, with the Patent Owner’s expert, or otherwise. The expert’s

acknowledgement that the sales were low from 1994 to 2000 and did not pick up until 2000-2004 (*see* Ex. 2020 at 61) actually tends to suggest that the product's alleged success was due to marketing or other factors, not the patented invention. In order to properly assess the significance of increased sales, the commercial activity over the life of the allegedly covered product would need to be explored.

No Evidence About the Reason for Not “Rigging Down”: In order to assess the expert's testimony about “rigging it down” (*see* Decision at 14), it would be necessary to know how often an automatic drilling system (or any drilling tool) is removed from a rig once installed if not defective. If drilling tools are typically left on a rig once installed even if not any more effective than the predecessor tools (because they are difficult or time-consuming to replace, for example), the assertion that drilling operators would “never rig [the Wildcat] down” is not probative of commercial success. Because the record is completely devoid of any reason why the products were not taken down, it is entirely possible that they were left up for any of a variety of reasons unrelated to the '142 patent.

Marketing and Advertising: In order to properly analyze the purported nexus, one must consider Patent Owner's marketing and advertising activity, which can discount, or even completely defeat, the value of sales as a secondary consideration. *See McNeil-PPC, Inc. v. L. Perrigo Co.*, 337 F.3d 1362, 1370 (Fed. Cir. 2003) (discounting the probative value of the purported evidence of secondary

considerations in part because “McNeil had launched a massive marketing and advertising campaign in connection with the launch of the Imodium® Advanced product, obscuring any nexus that might have existed between the merits of the product and its commercial success.”). Here, the record is devoid of any information about the marketing and advertising of the Wildcat because Patent Owner did not put it in, and because Petitioner had had no chance to develop, much less use, it. Similarly, it is questionable whether the purported success of the Pason system was due to marketing, advertising, or other external factors rather than the merits of the patented invention.

Industry or Market Factors: The record is also devoid of evidence about whether the purported success (which, again, did not start until 2000) was caused by a surge in oil drilling or other industry or market factors unrelated to the patented invention. One would need to understand the industry and the market to make any determination about relevance of increased sales, and that evidence is also completely missing from the record.

Other Products or Services: The record similarly is devoid of evidence about whether the Wildcat was sold or promoted in conjunction with other products or services that drove the purported increase in sales. Such evidence could be used to negate or defeat the purported nexus. But, again, because Patent Owner chose to not submit any evidence on this issue, and Petitioner has had no

opportunity to either develop or submit evidence in response to Patent Owner's self-serving evidence, the record is also silent on this topic.

Because Patent Owner's evidence is insufficient on its face, and because Petitioner did not have the opportunity to rebut that evidence, it was error for the Board to rely on that evidence in denying the Petition.

III. The Board Misapprehended the Strength of Petitioner's Prior Art When it Found That the Evidence of Secondary Considerations Overcomes Petitioner's *Prima Facie* Case of Obviousness

Although the Board should have disregarded Patent Owner's evidence of secondary considerations for the reasons discussed above, the Board's decision to not institute trial was an abuse of discretion even considering the purported secondary considerations because the Board misapprehended the strength of Petitioner's prior art.

A. The Board Misapprehended the Strength of Lindstad and Crake (Claims 1, 11, and 14)

Evidence of secondary considerations does not overcome a strong case of obviousness. *See Sibia Neurosciences v. Cadus Pharmaceutical*, 225 F.3d 1349, 1358 (Fed. Cir. 2000) (citation omitted); *Leapfrog Enters. v. Fisher-Price, Inc.*, 485 F.3d 1157, 1162 (Fed. Cir. 2007). Here, the only difference between Lindstad and the claimed invention is the field of use—blast hole drilling versus oilwell drilling. (*See* Petition at 17-23 (demonstrating how Lindstad discloses all of the other elements of the claims).) Indeed, this is the only difference identified by the

Board in its decision. (*See* Decision at 9-10 (finding that Lindstad does not disclose the “release” element because a blast hole drill uses a motor to force the drill string into the borehole rather than just the pull of gravity).) Patent Owner’s evidence of secondary considerations cannot overcome the obviousness of merely transferring technology from one field of drilling to another. *See Ohio Willow Wood Co. v. Alps South, LLC*, Nos. 2012-1642, 2013-1024, 2013 U.S. App. LEXIS 23062, at *20 (Fed. Cir. Nov. 15, 2013) (“[W]here a claimed invention represents no more than the predictable use of prior art elements according to established functions, as here, evidence of secondary indicia are frequently deemed inadequate to establish non-obviousness.”); *Western Union Co. v. MoneyGram Payment Sys.*, 626 F.3d 1361, 1373 (Fed. Cir. 2010) (“Here, where the inventions represented no more than ‘the predictable use of prior art elements according to their established functions,’ *KSR*, 550 U.S. at 417, the secondary considerations advanced by Western Union are inadequate to establish nonobviousness as a matter of law.”).

The Board appears to have misapprehended Lindstad as disclosing a mere drilling fluid pressure sensor. (*See* Decision at 11 (noting that the Dillon and Hobhouse prior art references at issue in the second reexamination each taught a drilling fluid pressure sensor); *id.* at 12 (noting that Lindstad discloses a drilling fluid pressure sensor).) On the contrary, the Petition demonstrated that Lindstad discloses a full-blown drilling system for controlling the vertical movement of the

drill string based on changes in drilling fluid pressure—not just a sensor. (*See* Petition at 14-15 (explaining Lindstad); *id.* at 17-19 (claim chart comparing Lindstad to claim 1).) The only element arguably missing from Lindstad is the “release” element, which, as construed by the Board, limits the ’142 patent to oilfield drilling. Therefore, Lindstad is closer to the ’142 patent claims than the prior art previously before the USPTO.

B. The Board Misapprehended the Strength of the Other Prior Art

Although the Board did not address the disclosures of Petitioner’s other obviousness combinations in its decision, the strength of that art also withstands Patent Owner’s evidence of secondary considerations.

1. Lindstad and Brooks (Claims 1, 11, and 14)

Given the Board’s determination of *prima facie* obviousness based on Lindstad and Crake, the combination of Lindstad and Brooks also merits such a determination. Like Crake, Brooks discloses a system for automatically regulating the release of the drill string based on changes in bit weight. (*See* Petition at 36-38.) However, Brooks *also* (1) discloses a system for measuring and monitoring drilling fluid pressure (*id.* at 33-35); and (2) contains explicit teachings that would have motivated one of ordinary skill in the art to automatically adjust the release of the drill string in response to changes in drilling fluid pressure (*id.* at 33).

Therefore, it would have been obvious to combine the blast hole system of

Lindstad (that automatically adjusts the vertical movement of the drill string based on drilling fluid pressure) with the oilfield system of Brooks given that Brooks already had the ability to measure drilling fluid pressure and the explicit motivation to use the measurements to further automate the drilling process (*id.* at 33 (citing the explicit motivational teachings of Brooks).)

2. Warren and Brooks (Claims 1, 11, and 14)

Given the teachings of Brooks, the combination of Warren and Brooks also makes for a *prima facie* case of obviousness. As discussed above, Brooks teaches (1) an oilfield drilling system that automatically regulates the release of the drill string based on bit weight, (2) a system that measures and monitors drilling fluid pressure, and (3) motivations for using the drilling fluid pressure measurements for further automation. (*See* Petition at 31-38.) Contrary Lindstad, Warren discloses an oilfield drilling system. Warren is closer to the '142 patent claims than the prior art previously considered by the USPTO that merely used bit weight to automatically regulate the release of the drill string because it discloses the use of multiple parameters, including both drilling fluid pressure and bit weight. (*See id.* at 41.) If any one of the parameters is outside the desired limits, Warren teaches that the computer causes the rig to take remedial action, including adjust the draw works for the drill string. (*See id.* at 43.) Thus, the combination of Warren and Brooks makes claims 1, 11, and 14 *prima facie* obvious.

3. Le Compte and Crake (Only Claim 14)

Le Compte is so close to the patent claims that Patent Owner was forced to amend claims 1 and 11 during the second reexamination to salvage those claims. (*See id.* at 55-56.) Claim 14 was spared amendment because Le Compte was not asserted as a ground of unpatentability with respect to claim 14. (*See id.* at 56.) Here, Petitioner asserts the combination of Le Compte and Crake as a ground of unpatentability for only claim 14. (*See id.* at 55-60.)

The only difference between claim 14 and pre-amended claims 1 and 11 is that claim 14 uses both drilling fluid pressure and bit weight to control the release of the drill string whereas claims 1 and 11 use only drilling fluid pressure. But because it was well known in the art since at least 1948 to use bit weight for this purpose (e.g., Crake), claim 14 is “no more than the predictable use of prior art elements according to established functions” in light of Le Compte (disclosing the use of drilling fluid pressure) in combination with Crake (disclosing the use of bit weight). *Ohio Willow Wood*, 2013 U.S. App. LEXIS 23062, at *20. “[E]vidence of secondary indicia are frequently deemed inadequate to establish non-obviousness” in this situation. *Id.*; *Western Union*, 626 F.3d at 1373. Accordingly, claim 14 is *prima facie* obvious in view of Le Compte and Crake.

4. Miller and Crake (Only Claim 14)

Miller discloses a drilling similar system similar to Le Compte and, thus,

Miller in combination with Crake is similarly close to claim 14. (*See* Petition at 47-55.) However, Miller *also* contains explicit teachings that would motivate one of ordinary skill in the art at the time of the invention to combine the teachings of Miller with a system like Crake that uses bit weight to automatically regulate the release of the drill string. (*See* Petition at 49.) In particular, Miller teaches that “maintenance of proper downward force or ‘weight’ on the drill bit is very important in order that drilling proceed rapidly but with a minimum bit wear.” (Miller, Ex. 1022, 2:20-23; *see also id.* 6:71-75 (“It is desirable to control the weight on the bit very closely in order to avoid rapid deterioration of the bit.”).) Thus, claim 14 is *prima facie* obvious in view of Miller and Crake.

Accordingly, the Board abused its discretion by misapprehending the strength of Petitioner’s prior art in determining that evidence of secondary considerations overcome Petitioner’s *prima facie* case of obviousness.

CONCLUSION

For the foregoing reasons, Petitioner respectfully requests that the Board institute trial with respect to Grounds 2-3, 5, and 7-8 of the Petition.

Respectfully submitted,

Dated: December 2, 2013

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing Petitioner's Motion Requesting Rehearing Pursuant to 37 C.F.R. § 42.71 of the Board's Decision to Not Institute Trial was served on December 2, 2013 by e-mail directed to the attorneys of record for Patent Owner at the following e-mail addresses and by placing a copy into EXPRESS MAIL® at the following office address:

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