

UNITED STATES PATENT AND TRADEMARK OFFICE

BEFORE THE PATENT TRIAL AND APPEAL BOARD

TELEBRANDS CORP.,
Petitioner

v.

TINNUS ENTERPRISES, LLC,
Patent Owner

Case PGR2016-00030
U.S. Patent 9,242,749

PATENT OWNER'S REQUEST FOR REHEARING

I. INTRODUCTION

Patent Owner respectfully seeks rehearing of institution under 37 C.F.R. § 42.71(d). If any patent is not properly subject to PGR, it is this one. Rehearing to deny institution is proper for at least three reasons.

First, the identical Petitioner lost the mirror image issue in Article III district court proceedings. (*See* Exs. 2003, 2004). Patent Owner proved in preliminary injunction proceedings that Petitioner's invalidity defenses based on identical grounds (obviousness over Cooper, Saggio and Donaldson) "lacked substantial merit." (*Id.*). Logically, no ground proven to lack substantial merit could simultaneously be "more likely than not" to succeed. The Institution Decision unnecessarily and incorrectly puts the Patent Office into conflict with an Article III court.

Second, Patent Owner proffered a comprehensive showing of powerful objective indicia of nonobviousness. The Institution Decision overlooks most of the facts of this showing while violating Federal Circuit methodological rules. The Institution Decision states a preference for awaiting a more developed record. But under the law, the facts that the Panel believed must await future development do not sap the evidence that Patent Owner proffered of any of its strength. For instance, the invention was the summer's bestselling toy in at least two countries in 2015-2016. Being first is the ultimate proof of significant sales in a relevant

market. Once the Panel considers several probative but so-far-overlooked facts, while reserving judgment on the obviousness question until considering all objective indicia, it should determine that Petitioner did not meet its burden on institution.

Third, the original Examiner of this AIA patent already considered the prior art that makes up the instituted grounds. The Institution Decision made no effort to show that the original Examiner considered the art in a different light than Petitioner does. Given the statutory language and purpose to make the PGR institution threshold high, the Panel incorrectly applied its discretion under 35 U.S.C. §§ 324(a) and 325(d) to permit this PGR to go forward exclusively over art already considered by the original Examiner.

II. MISAPPREHENDED OR OVERLOOKED MATTER 1: CONFLICT WITH AN ARTICLE III COURT

Patent Owner raised the first overlooked matter at pages 10-13 of the Preliminary Response. Patent Owner noted Petitioner's recent loss to Patent Owner in contested federal district court proceedings of whether the same grounds used here for institution "lacked substantial merit." Such grounds did not even raise a "substantial question." The word "substantial" here is used in the sense of something with any substance at all. The Institution Decision does not refer to, much less consider, the federal court decision finding that the instituted invalidity grounds were insubstantial.

Because of institution of trial, the conflict here is specific, and unavoidable. Patent Owner does *not* raise the unrelated issue of this agency’s authority to find invalidity under a preponderance standard after a petitioner fails to prove invalidity under a “clear and convincing” standard. *See, e.g., Fresenius USA, Inc. v. Baxter Int’l, Inc.*, 733 F.3d 1369 (Fed. Cir. 2013). A preliminary injunction determination on patent validity uses (at most) the same threshold as the PTAB’s PGR institution determination. On this point, if an attacker cannot even generate a “substantial question” in federal court, it necessarily cannot have met the “more likely than not” standard in this agency under identical arguments and evidence. This holds true despite the differing proof standards in the respective tribunals. A defense that “lacks substantial merit” under a “clear and convincing” standard lands *far behind* the 50/50 tipping point that denotes where “unlikely” ends and “more likely” begins. It certainly cannot *surpass* the 50/50 line in the context of the “preponderance” standard. Denial of institution will avoid the conflict.

For similar reasons, issue preclusion should foreclose Petitioner from proceeding. *See B&B Hardware, Inc. v. Hargis Indus., Inc.*, 135 S. Ct. 1293, 1303 (2015) (citing Restatement (Second) of Judgments §§ 27, 28). On the issues subsumed within it, such as the “substantial question of patent validity” issue, the district court’s preliminary injunction decision is final enough for purposes of appellate review in the federal courts. Petitioner took its aim and lost, and had a

fair opportunity to do so. The Institution Decision thus incorrectly assumes that Petitioner retains the legal authority to proceed against Patent Owner after having lost, when in fact it became precluded after conclusion of the contested proceeding on the same questions in federal court.

II. MISAPPREHENDED OR OVERLOOKED MATTER 2: OBJECTIVE INDICIA OF NONOBVIOUSNESS

Patent Owner raised the second overlooked matter at pages 47-52 of the Preliminary Response. The Institution Decision comes to fully-formed conclusions of obviousness on pages 28 and 31, *before* ever addressing objective indicia. (Paper No. 16 at 28, “Petitioner *has demonstrated* that it is more likely than not that it will prevail with respect to its challenge to claim 1 as obvious . . .,” and 31, “Petitioner *has shown* that it is more likely than not that claim 1 would have been obvious,” emphases added). It later considers objective indicia of nonobviousness, but only to assess whether to maintain such conclusions. (*Id.* at 32-33).

Respectfully, the Panel’s methodology is contrary to law. Tribunals err to prejudge obviousness and then assess whether secondary considerations convince them to change their minds. *Plantronics, Inc. v. Aliph, Inc.*, 724 F.3d 1343, 1355 (Fed. Cir. 2013). Tribunals should reach no conclusion on obviousness before assessing all of the evidence, including objective indicia. *Id.*; *see also* *Arkie Lures, Inc. v. Gene Larew Tackle, Inc.*, 119 F.3d 953, 958 (Fed. Cir. 1997) (emphasizing that the secondary considerations are not secondary). Here, the Panel erred in two

ways, correctable on rehearing with a conclusion to deny institution. The Panel not only incorrectly prejudged the obviousness question by forming conclusions after only having considered the prior art.¹ When it did reach objective indicia, it also overlooked many probative facts that Patent Owner presented against the obviousness conclusion.

First, the Panel overlooked key “commercial success” facts. The Institution Decision does not acknowledge the fact that the Bunch O Balloons commercial embodiment was the bestselling toy in Australia in summer 2015, and the bestselling toy in the United States in summer 2016. (Ex. 2012 ¶ 4; Ex. 2010 ¶ 87). For a product to go from nothing to the bestseller in its category in one or two years is the ultimate in “commercial success.” Nothing exceeds that metric, since being number one is the ultimate indicator of significant sales in a relevant market. *Ormco Corp. v. Align Tech., Inc.*, 463 F.3d 1299, 1312 (Fed. Cir. 2006)

¹The Panel’s use of a methodology prohibited by precedent constitutes a basis noted within the PTAB’s Standard Operating Procedures for suggesting an expanded panel to the PTAB Chief Judge. PTAB SOP ¶ III.A.I (“involves an issue of exceptional importance, such as where . . . a panel of the Board renders a decision that conflicts with . . . an authoritative decision of the Board’s reviewing courts.”). Therefore, Patent Owner as “a party in an AIA Review [] suggest[s] the need for an expanded panel.” *Id.* at ¶ III.C.

(“significant sales in a relevant market” indicates commercial success). Yet this fact is missing from the Institution Decision. Weighing it properly precludes a finding that Petitioner met the institution threshold of “more likely than not invalid.”

Though the Panel believed that “specific sales figures” were required (Paper No. 16 at 32), the Federal Circuit held that indication of a substantial share of a definable market alone qualifies as probative commercial success evidence. *In re Huang*, 100 F.3d 135, 140 (Fed. Cir. 1996). Again, being number one is the ultimate such indication. In the typical case, a patent owner presents numerical sales figures to prove up a ranking in the market, whereas in this case that is not even necessary. The Panel also confusingly required that factual testimony on commercial success must be corroborated by “documentary evidence.” In fact, PTAB regulations require consideration of “*any*” testimony proffered to prove commercial success at the institution phase, not just corroborated testimony. 37 C.F.R. § 42.208 (emphasis added). This broad rule is consistent with the general law that sworn statements may themselves be admissible evidence. In any case, the Panel overlooked that Mr. Nunziati *did* provide documentary corroboration. (Ex. 2012, NPD statement identifying Bunch O Balloons as the bestselling of all toys in summer 2016). The Panel misapprehended this fact in the Institution Decision as well.

The Panel overlooked other facts of record, supportive of nonobviousness. The Institution Decision does not mention Patent Owner's record of successful licensing – a strong objective indicium of nonobviousness. (*See* Ex. 2010 ¶ 80; Ex. 2011 ¶¶ 3-7). Such licensing undisputedly includes ZURU, a well-established toy company with decades of experience, who took exclusive rights. (*Id.*). The Institution Decision overlooked this evidence of high industry confidence in the prospects of the patented invention over what existed already in the public domain.

The Institution Decision also gave little weight to evidence of praise and industry awards for the sole reason that “the actual articles and information about the various awards” were missing from the record. (Paper No. 16 at 33). This conclusion overlooked that the relevant testimony included article titles (informative and colorfully supportive of nonobviousness on their own) and award names, along with internet links. Both Petitioner and the Panel could have identified matter concerning such articles and awards that would have hypothetically undermined their probative value, but did not.

Finally, the Panel misapprehended the evidence of copying. The Panel treated Dr. Kudrowitz's testimony as deserving “little weight” because he did not disclose underlying facts or data for an opinion that the Petitioner's product is “identical.” (Paper No. 16 at 33, quote marks the Panel's). But the testimony is not opinion subject to the rule the Panel cited. An opinion is a collection of inferences

an expert may make from preexisting facts. Rather, Dr. Kudrowitz testified under oath to a plain fact – that Petitioner’s product was “an exact duplicate” of the patented Bunch O Balloons. (Ex. 2010 ¶ 84). The Institution Decision should have credited this as fact, not opinion, and should also have observed that it was not contradicted. Even more perplexing, the Panel attributed to Dr. Kudrowitz a word he did not ever use in his declaration (“identical”), and cited a paragraph from his declaration on a different issue (paragraph 11, level of skill in the art). (Paper No. 16 at 33). This further indicates the Panel’s misapprehension on this topic.

In the aggregate, the Panel’s misapprehensions and omissions on objective indicia led it to an incorrect institution decision. It defies understanding how a patented invention receiving so much praise, so much consumer demand, so much unrefuted licensing interest, and such high proven success in the marketplace, could leave Petitioner with anything more than a residual chance to prove obviousness before a tribunal. Patent Owner does not quibble with Petitioner’s right to continue its efforts to pursue that residual chance in district court proceedings. But objective indicia as weighty as exist here should foreclose altogether any PGR panel from finding that Petitioner’s odds are “more likely than not.”

III. MISAPPREHENDED OR OVERLOOKED MATTER 3: INCORRECT USE OF DISCRETION TO INSTITUTE ON GROUNDS BASED ON ALREADY-CONSIDERED ART

Patent Owner raised the third overlooked matter at pages 46-47 of the Preliminary Response. Patent Owner pointed out that (1) the Examiner during original prosecution considered every piece of prior art used in a currently instituted ground, and (2) was aware of PGR2015-00018 at the time (which included overlapping arguments) and thus would have done so with particular care. The Institution Decision declined to exercise discretion to deny review, stating that the Panel did not believe the Examiner had “meaningfully considered” the prior art or petitioner arguments. (Paper No. 16 at 10-11). In support, the Panel cited two pages of the prosecution record – an Information Disclosure Statement entry identifying the PGR2015-00018 petition, and an interview summary confirming that the Examiner was aware of the institution of proceedings in PGR2015-00018. (*Id.*, citing Ex. 1005 at 9, 67).

First, the cited record does not support the Panel’s proposition. The citations *embody* meaningful consideration; they in no way *contradict* it. Logically, confirmation that something has occurred (*i.e.*, consideration of prior art by the Examiner) does not support a belief that the same thing has not occurred. Thus, even under the Panel’s apparent view of the breadth of proper exercise of its discretion in a situation involving completely overlapping prior art compared with

original examination, a factual misapprehension caused the Panel to exercise that discretion incorrectly.

More fundamentally, the Panel did not have a correct view of the guideposts for the proper exercise of discretion. In fact, when proposed grounds solely involve prior art that the examiner considered during original prosecution, and a petitioner points to no particular factual misunderstanding about the contents of that prior art, it can never be the case that such petitioner has established it is “more likely than not” that it will prevail in showing invalidity. This unique factual scenario constrains the PTAB’s discretion under 35 U.S.C. §§ 324(a) and 325(d).

First, examiners are quasi-judicial officers, and as such are presumed to have done their jobs correctly. *Rein v. USPTO*, 553 F.3d 353, 373 (4th Cir. 2009); *W. Elec. Co., Inc. v. Piezo Tech., Inc.*, 860 F.2d 428, 432-33 (Fed. Cir. 1988). If an examiner has considered an item or a group of items of prior art, and states no mistaken understanding about what the items disclose, then his or her conclusion on patentability is presumed more likely than not correct. This follows from the fact of having considered the prior art, along with the presumption of correctness of official action.

Second, Congress’s purpose in enacting the “more likely than not” standard within certain AIA proceedings (PGRs and CBMs) was to *heighten* the showing required to institute proceedings *above* that of already-extant proceedings: namely,

ex parte reexamination. See S5428, Statement of Senator Leahy (“Specifically, to initiate a post issuance review under the new post grant or transitional proceedings, it is not enough that the request show a substantial new question of patentability but must establish that ‘it is more likely than not that at least 1 of the claims challenged in the petition is unpatentable.’”). This was to protect patent owners who already survived having their patent claims tested by the Patent Office over specific prior art. *Id.* (“The heightened requirement established by this bill means that these proceedings are even better shielded from abuse than the reexamination proceedings have been.”); see also *id.* (“Therefore, the rule that ***bars the PTO from reconsidering issues previously considered during examination . . . still applies.***”) (emphasis added). As such, the *ex parte* reexamination threshold sweeps in far more arguments and evidence than does the PGR threshold when art had already been considered.

Under the facts here, even the more generous *ex parte* reexamination standard would not have permitted institution of proceedings. That being the case, PGR institution can only be more incorrect. The Federal Circuit has handed down the applicable reexamination threshold. In *In re Swanson*, the Federal Circuit analyzed the rule that the Patent Office may not institute reexamination proceedings unless there is a “substantial new question of patentability.” 540 F.3d 1368 (Fed. Cir. 2008). *Swanson* analyzed language amended into the

reexamination statute in 2002 that expanded what is a “new question of patentability” over previously-considered art. Namely, previously-considered art presented in a “new light” might still raise a “new question.” *Id.* at 1376. But there were limits. *Swanson* held that, where the art has already been considered, the Patent Office may institute if the art is now being considered “for a substantially different purpose.” *Id.* at 1380.

The PGR statute does not contain the 2002 broadening language that provoked the Federal Circuit in *Swanson* to expand to what extent something already considered could ever raise a “new question.” Thus for PGRs, no “new light” or “different purpose” analysis is proper when assessing the “more likely than not” institution threshold in the context of already-considered art. This leads ineluctably to the conclusion that previously-considered art, plus a petitioner’s inability to point to specific examiner misunderstandings about that art, in view of the presumption of official correctness, makes it impossible for such a petitioner to meet the “more likely than not” threshold. This rare scenario exists here.

But even if “new light” and “different purpose” were somehow relevant concepts in PGRs, *Swanson* was careful to limit potential abuse of those notions. Under this standard, where there is no evidence that an examiner considered a reference in a *limited* light, it should be impossible for a petitioner to prove that its current proposed treatment embodies a “*new*” light, or otherwise is for a

“*different*” purpose than did the examiner. This, too, follows logically. To show something is used for a “different” purpose, one must first point to what the purpose of the first use had been.

Putting this all together, PGRs are supposed to be harder to provoke than *ex parte* reexamination. This is because Congress fashioned the “more likely than not” standard with the purpose to raise the bar above “substantial new question of patentability.” This in turn means that if prior examiner consideration of the art would have precluded proper institution of *ex parte* reexamination proceedings, the same scenario necessarily precludes proper institution of PGRs. Even more compellingly, the PGR statute lacks the 2002 statutory amendment language that caused *Swanson* to delve into “new light” and “different purpose” exceptions in the first place. The discretionary denial statute – 35 U.S.C. § 325(d) – accordingly permits denial when the “same prior art” was “presented to the Office,” regardless of the “light” or “purpose” of that prior presentation.

In short, the instituted grounds run contrary to Congressional prohibitions discernible from statutory language and purpose. The current Institution Decision thus uses grounds that this Panel may not properly use. Patent Owner respectfully requests reconsideration, and denial of institution, to harmonize the Panel’s actions with Congressional language and intent under 35 U.S.C. §§ 324(a) and 325(d).

V. CONCLUSION

Each basis for rehearing permits the Panel to correct anomalies arising from the decision to institute trial. Adopting the first basis to deny institution will permit the Panel to maintain consistency with an otherwise conflicting Article III court decision, and likewise respect prohibitions on Petitioner's right to recycle failed arguments. Adopting the second basis to deny institution will permit the Panel to align its methodology for determining obviousness with Federal Circuit mandates. And adopting the third basis to deny institution will ensure that the Patent Office issues no decision in conflict with itself – where denial is required by statutory language and purpose behind raising PGR institution thresholds above that of *ex parte* reexamination.

For the foregoing reasons, Patent Owner respectfully requests that the Panel rehear its Institution Decision, find a *less* than 50% likelihood that Petitioner's arguments would result in invalidity, and deny institution outright.

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Respectfully submitted,

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CERTIFICATE OF SERVICE

The undersigned certifies that on March 7, 2017, **PATENT OWNER'S REQUEST FOR REHEARING** was served on Petitioner's counsel of record Robert T. Maldonado, Tonia A. Sayour, and Eric J. Mauer by electronic service at:

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