Patents: Post-Grant Podcast: Behaving Badly: _OpenSky v. VLSI_ and Sanctions at the PTAB
Host: Andrew Zappia
Guest: Bryan Smith
Recorded 2/7/24

Andy Zappia:

Greetings and welcome to Troutman Pepper's *Patents: Post-Grant Podcast* series. My name is Andy Zappia, and I'm joined today by my colleague, Bryan Smith. In this installment of our Post-Grant Podcast series, we're going to take a look at sanctions in PTO proceedings, especially proceedings before the Patent Trial and Appeal Board, and the cautionary tale of the *OpenSky v. VLSI IPR proceeding*. Which brings into play most of the scenarios that can come up in the context of sanctions arising in this case, an IPR proceeding.

Bryan, just to set the table a little bit, since we're talking about conduct issues in IPR proceedings. What are the rules on conduct of attorneys and parties when they're in say, an IPR proceeding before the PTAB?

Bryan Smith:

Thanks, Andy. The PTAB rules set forth duty of candor and good faith to the office during any proceedings related to the America Invents Act, which includes the inter partes review proceedings instituted before the Board. The rules further set forth a number of specific enumerated categories of misconduct that can result in sanctions. For example, they include failure to comply with the board's order, and a big one that we'll be talking about today is abusive process of the tribunal as a whole. They are also broadly applied to other improper uses of the proceedings that can cause harassment, delay, or the parties to unnecessarily incur fees. Although the Board rules set forth these enumerated items that can relate to sanctions, the Federal Circuit has also held that the Board has wide discretion to sanction other conduct that creates problems within the AIA system.

Andy Zappia:

Part of the role also says like frivolous arguments and misrepresentations, those can be sanctionable too, right?

Bryan Smith:

Absolutely. Those are under the enumerated categories and have specifically resulted in sanctionable activity, as we'll discussed with respect to the OpenSky and VLSI matter. The rules provide that the sanctions can be provided for on motion by either party, or sua sponte by the Board itself. As we'll talk about with these specific cases, the director also has authority to issue sanctions within the director review process itself. The sanctions within the rules are designed to deter bad conduct, both by the party itself and from other parties from engaging in similar conduct.

Patents: Post-Grant Podcast: Behaving Badly: _OpenSky v. VLSI_ and Sanctions at the PTAB

The statutory authority allows the Board to issue a number of specific types of sanctions, including adverse rulings on facts or issues, striking particular filings, limiting the party's discovery, excluding evidence from being submitted. Two of the more important ones are, they can offer compensatory expenses, including attorney's fees, as well as the extreme sanction of judgment in the trial or dismissal of a petition. The PTO can also sanction attorney conduct through the office of enrollment and discipline, as well as some of the sanctions issues that we're talking about today that more or so relate to the parties at issue. But for a while, sanctions were really associated with the IPRs, but as Andy will discuss, it's become a hot topic recently.

Andy Zappia:

Yes. The IPR practice, and of course, these rules also apply to post-grant review, PGR. So they apply there as well. Usually, IPR practices, in my experience, and we've done a lot of them are pretty collegial. Usually, folks are professionals in the practice. Typically, I find it more genteel than federal court, and certainly, way more genteel than New York State Court, where I've had many cases. But we have seen more and more sanction issues come up in IPR proceedings. It may be a product of the fact that there are so many IPRs, the Board has many cases to deal with. Maybe it's concerned that the volume is also being combined with some conduct that they think is not up to standards, that they would like to see.

I think there's a deterrent factor in some of the sanction's decisions, kind of saying to the bar, that practices in this world, that you really have to be mindful of what the expectations of the patent office in these proceedings. Just yesterday, the PTAB released a public version of a sanction order in the *OpenSky v. VLSI* case itself. That was timely for this podcast topics. But before we get into that, Bryan, maybe you can just go through who is OpenSky, who is VLSI, just so our listeners know what are these entities.

Bryan Smith:

Sure. VLSI is a patent holding company that owned two patents, in particular, related to semiconductor technology. Those patents became very important, as Andy will discuss later, because they had an infringement suit against Intel. OpenSky is a shell company that was created seemingly for the sole purposes of leveraging the verdict against Intel, as was later determined misuse of the IPR process, which we'll get into a bit later.

Andy Zappia:

Then Intel is also involved in the IPR, this whole IPR dispute too. How did they get involved?

Bryan Smith:

Intel was involved because of the underlying verdict obtained for infringement of the patents owned by VLSI, and their ability to join the IPRs filed by OpenSky under the joinder provisions of the PTAB rules.

Andy Zappia:

So they joined the IPR brought by OpenSky?

Bryan Smith:

That's correct. Intel had actually filed their own IPRs, which were dismissed. But under the joinder provisions, they were able to get a backdoor into involvement in the IPR as related to these patents.

Andy Zappia:

Got you. Before we get into the actual sanctionable conduct that came up, I thought maybe I would just outline what happened here. Bryan previewed some of it for us already. VLSI sued Intel in the Western District of Texas on the semiconductor patents and got a verdict. They got a pretty big verdict, $675 million. Now, in connection with that dispute, Intel filed two IPRs, but they were both denied institution under the Fintiv rules. And that, some of our listeners will recall, Fintiv is a basis for discretionary denial if there's a parallel district court litigation and allows the Board to deny institution if it thinks the parallel case is too far advanced. Some of the rules for that have changed since this dispute, but those are certainly the rules in place at the time of this particular dispute.

After the verdict, OpenSky was created as an entity. They copied Intel's IPRs and filed new petitions, and they weren't party to the litigation, so they weren't subject to these bars, like the parallel proceeding bar. They went and filed these IPRs. Intel, eventually, as Bryan mentioned, joined them. But then, OpenSky did something very interesting. They went to VLSI and said, "Hey, if you pay us money, we won't actively pursue these IPRs," and they didn't get the taker there. They went to Intel, and they said, "Hey, Intel. We'll support these IPRs because they're in your interest." So they tried to get money from both sides.

The IPRs were instituted, and then VLSI sought director review of institution. The director granted review. We did a previous podcast on this, Bryan. I think it was our last podcast about director review. But do you want to just quickly say what that is, just to remind our listeners?

Bryan Smith:

Sure. The Supreme Court indicated that for various reasons, final authority for all decisions issued by the PTAB had to rest with the director herself. So in that regard, the PTAB established a director review process. Pursuant to the director review, the director can affirm, reverse, modify, vacate, or remand the decision of the Board on any issue. The interim director review rules further provide the director with authority to issue sanctions for any conduct that occurs, either during the initial PTAB determination, or in the director review process itself, which we'll see. Some of the parties in this action actually got in trouble for their actions during the director review as opposed to the underlying case itself.

Andy Zappia:

Yes. As we talked about in our last podcast, the director has been very active in intervening sometimes sua sponte, sometimes after director review request. This is an example of the director getting very specifically involved in a matter. Just to provide a quick summary for our listeners, when the director stepped in here, she took a number of actions. She took actions on the merits, but also regarding conduct. She allowed the institution decision to stand. She

allowed Intel to remain in the IPRs as a joint party. She excluded OpenSky from the IPR that OpenSky initially filed. Ultimately, the PTAB did invalidate the challenge claims.

Now, on party conduct. Let's start on that side first. Because this is the case, we have sanctions going both ways. Let's start with OpenSky. When it comes to sanctions, what were the issues the director was concerned about regarding OpenSky? What did she do in relation to sanctions?

Bryan Smith:

The conduct that was exhibited by OpenSky was clearly the most egregious of all the bad actions that have taken place in this sordid story. Certainly, that led to the recent sanction order, which was a significant sum in attorney's fees. OpenSky's conduct really went to their abuse of the process as a whole. As Andy mentioned, they went to both parties to try to extract fees based on this IPR petition, which was seemingly filed for the sole purpose of extracting money. Even more potentially dangerous, OpenSky expressed willingness to take steps to sabotage its own IPRs to extract money from VLSI when Intel expressed its unwillingness to pay them to support the petitions. Either way, they were going to try to use the process to extract money, whether it meant vigorously pursuing the IPR, or in essentially tanking them.

Andy Zappia:

Tanking their own IPRs.

Bryan Smith:

Exactly.

Bryan Smith:

They're willing to do whatever was necessary in order to use these IPRs to benefit their own pockets. That's pretty much the whole reason why OpenSky was created as a shell company. OpenSky also engaged in other discovery misconduct and failed to comply with specific orders of the Board. As a result, the director took the very extreme step of barring OpenSky from further participating in the IPRs, unless expressly directed to do so by the director. The director also provided an order to show cause to OpenSky on why VLSI should not be awarded fees for having to defend these IPRs. The parties both briefed that issue.

As Andy mentioned, that resulted in the recent decision where OpenSky was sanctioned for an amount over $400,000 for attorney's fees, which was approximately 82% of the fees that VLSI had requested in the briefing. The director did exclude some fees that were related to pre-institution activities, or otherwise, outside of the IPR, or director review process. But was willing to accept VLSI's statements on the amounts of the attorney awards and slap OpenSky with a pretty significant sanction award. Of note, the director also dropped the footnote indicating that this decision only related to sanctions against OpenSky as a party to the IPR proceeding and would not preclude sanctions or other discipline against the attorneys involved.

Andy Zappia:

The attorneys for OpenSky?

Bryan Smith:

Exactly, in this instance. As we'll mention later, there were some VLSI misdeeds, not quite as significant.

Andy Zappia:

When I look at what happened to OpenSky, there are some lessons to be drawn. In litigation, people file IPR proceedings for tactical reasons, right? But they always have to have a meritorious basis and grounds, they have to meet their duty of candor. They have to comply with the board rules. Because at the end of the day, what the board is doing is policing the patents that are allowed to make sure they're good patents, right? There's a public policy element to that. Parties have reasons to channel of patents, but they always have to do so in the context of having meritorious positions, and good faith, and belief that they can win on the merits.

Here, I think, one of the reasons OpenSky got in so much trouble is that they really weren't engaged in that sort of good faith process to attack patents, because their client was accused to infringing them, and they thought they had a basis to say they're invalid or for other normal reasons. Competitors, problematic patent, things like that. Here are really was just an operation about making money, it was somewhat mercenary how they were behaving. That's a lesson to be learned, that the Board and the director does not want to see that kind of conduct from parties.

Now, on VLSI, they didn't escape criticism and they also had their own sanction question. What happened there with them, Bryan?

Bryan Smith:

VLSI sought to challenge these petitions in light of the significant district court judgment that they were trying to maintain. Once these IPRs were instituted, VLSI sought to use the director review process to challenge institution. Once the director denied rehearing on the institution decision, the director also issued an order to show cause on VLSI, why it should not be sanctioned and made to pay Intel's attorney's fees for arguments that VLSI raised during the rehearing. In particular, the director argued that VLSI made a couple of errors in their briefing on that issue. Including making misleading arguments regarding their characterization of the institution decision, as well as misleading statements of law, and citing precedent regarding a couple issues, including the Nexus necessary for secondary considerations obviousness as well as due process issues.

VLSI was forced to respond to that order to show cause to justify their activities during the rehearing of the IPR institution. In this case, VLSI was able to escape significant sanctions that were merely admonished by the director for their activities. While the director determined it, VLSI negligently and curiously advanced arguments. The director accepted VLSI statements for how those arguments were made somewhat in good faith. But like I said, they did admonish VLSI pretty significantly, and cautioned against a couple of the activities that VLSI was accused of, including selectively quoting the record. They also admonished VLSI that they must adequately explain relevance in context of cases that were cited in their briefing.

Andy Zappia:

Yes. When I looked at this, it's sort of an instance, and I've seen this. I'm sure I've been guilty of it myself in IPR. Sometimes, getting over aggressive with arguments. One thing about IPR practice is, it's not court practice, and you have obligations to the court. But attorneys can get fairly aggressive in positions they take in court. I think in IPR context, it's necessary for counsel to be very careful, but arguments advanced. Because both the board and the director have high expectations of counsel, and the positions taken. That legal positions are correct; the record is not being miscited.

They also have high standards for kind of demeanor of counsel. I have seen counsel be admonished for getting too aggressive in argument, both verbally adhering, and in written submissions. They also don't like it when you take shots at the counsel on the other side. I think the lesson to be drawn here with VLSI is that they got overly aggressive in the positions they are being taken, and they got their wrist slapped for it. But it's a good lesson in general for IPR practitioners, that the proceeding puts a premium, being careful, and being balanced in presentation of your arguments. You do better at the board when you are careful and balanced in presenting arguments. Any closing thoughts on this case?

I think my thought is that people should look at this and keep it in mind when they're involved in IPR practice, because so many of the different sanctions' issues came into play here. Director review comes into play, and institution issues, and also joinder. This is like a lesson how people can use the procedure both effectively. Like Intel use it effectively. They were barred from their own IPR. They joined IPRs filed by others, they managed to keep those IPRs going. When OpenSky was kicked off as petitioner, they remain. They ultimately got the patent claims invalidated. There's so many different lessons at different levels for this particular dispute, but party and conduct is I think a big one.

Bryan Smith:

I think that's absolutely a great takeaway regarding the premium on being careful. Interestingly enough, one of the arguments that VLSI tried to advance is the large number of IPRs that its counsel had been in, and the exemplary behavior. The director basically shot that down and looked at the very specific conduct. Despite a lengthy track record of good practicing before the board, one instance of mischaracterization, or being overly aggressive can really create an issue.

Andy Zappia:

One thing, I'll just say in closing is that folks listening to this shouldn't be scared about participating in these proceedings in relation to sanction issues. Because in my experience, when these sorts of issues are raised, the board doesn't like when you take those sorts of shots at the other side. So you have to – either the conduct has to be really egregious, or you have to have all your ducks in a row to support such an argument. It's not the case that sort of sanctions are running rampant in IPR practice. But when you're on those outer fringes of acceptable behavior, you will get slapped down, and if the directors are involved significantly. That's just my perspective.

Well, Bryan, thank you so much for doing this podcast with me. I hope our listeners found it interesting. Troutman Pepper's Intellectual Property Team will continue helping its clients develop and implement global protection and commercialization strategies for intellectual property. For more information on how we can help you, please visit our website, troutman.com. You can also subscribe and listen to this and other podcasts in our series on post-grant proceedings, including on Apple, Google, and Spotify. Thank you. We hope you enjoyed this podcast.