UNITED STATES PATENT AND TRADEMARK OFFICE

BEFORE THE OFFICE OF THE UNDER SECRETARY AND DIRECTOR

OF THE UNITED STATES PATENT AND TRADEMARK OFFICE

OPENSKY INDUSTRIES, LLC,

INTEL CORPORATION,

Petitioners,

v.

VLSI TECHNOLOGY LLC,

Patent Owner

Case IPR2021-01064

Patent No. 7,725,759

PETITIONER OPENSKY'S RESPONSE TO THE

OCTOBER 4, 2022 ORDER TO SHOW CAUSE

TABLE OF CONTENTS

TABLE OF CONTENTS
(Continued)

TABLE OF AUTHORITIES

Page(s)

Cases

TABLE OF AUTHORITIES
(Continued)

Page(s)

TABLE OF AUTHORITIES
(Continued)

Page(s)

TABLE OF AUTHORITIES
(Continued)

TABLE OF AUTHORITIES
(Continued)

*Citations to "Paper __" and "Ex. ____" refer to Papers and Exhibits filed in IPR proceeding IPR2021-01064, unless indicated otherwise (e.g., by identification of a different IPR case number).

Pursuant to the October 4, 2022 Order to Show Cause, Petitioner OpenSky Industries, LLC ("Petitioner" or "OpenSky") submits this paper addressing whether compensatory attorneys' fees should be ordered as a further sanction for abuse of process and, if so, the appropriate time period for any assessed fees. (Paper 102 ("OSC Decision") at 4, 51 and Paper 109.)

The Director may not award patent owner VLSI Technology LLC ("VLSI") any compensatory attorneys' fees. First, Supreme Court precedent requires explicit statutory authorization for such fees; no such authorization exists. Second, the Director's Review did not provide OpenSky with adequate notice and opportunity to respond as required by Due Process guarantees of the Constitution and the Administrative Procedure Act ("APA"). Third, even if attorneys' fees were possible, no fees can be awarded because (1) OpenSky's Petition enjoys *Noerr-Pennington* immunity from sanctions for abuse of process and (2) the OSC Decision fails to show that any of OpenSky's "misconduct" actually harmed VLSI.

The OSC Decision's question about the "time period" for an attorneys' fee award is improper. Attorneys' fee awards must be limited to costs caused solely by misconduct and cannot be based on all fees incurred during a certain period.

FACTUAL BACKGROUND

VLSI is one of several non-practicing patent assertion entities ("PAE") owned by Fortress Investment Group. (*Intel Corp. v. Fortress Inv. Grp. LLC*, Case 3:19-cv-07651-EMC, Dkt. 235-3, ¶¶ 8, 55–144 (N.D. Cal. Mar. 8, 2021).) Each Fortress PAE has a sole purpose of filing patent lawsuits against leading U.S.-based companies like Intel. (*Id.*) VLSI and its sibling Fortress PAEs have aggregated assertion rights to over 1,000 previously unused patents. (*Id.*, ¶¶ 33, 78–101; *see also* Ex. 1511.)

On April 11, 2019, VLSI asserted U.S. Patent No. 7,725,759 (the ’759 patent”) against Intel Corporation (“Intel”) in the Western District of Texas. (Ex. 1512.) Although Intel timely filed two *inter partes* review (“IPR”) petitions in late 2019 and early 2020, the Board refused to institute the proceedings based on the *Fintiv* factors because of an alleged October 2020 district court trial date. (IPR2020-00106, Paper 17 at 4–13; IPR2020-00498, Paper 16 at 4–11.) That trial was delayed until March 2021, after which Intel was found liable for infringing the ’759 patent and VLSI was awarded nearly $700 million in damages. (Ex. 1027 at 3, 6.)

On June 7, 2021, OpenSky filed an IPR petition demonstrating the unpatentability of several claims of the ’759 patent. (*See* Paper 2 (“Petition”).) OpenSky’s Petition synthesizes and repackages evidence previously presented in Intel’s two earlier IPR petitions. OpenSky cited to two expert declarations of Dr. Bruce Jacob because Dr. Jacob was unlikely to change opinions recently given under penalty of perjury involving the same patent and prior art. (Exs. 1002 at

263–64 and 1046 at 435–36.) Within two months, VLSI contacted OpenSky and the parties began discussing potential settlement. (Exs. 1062 and 1063.)

VLSI's September 24, 2021 Preliminary Response argued technicalities prevented a merits review of the '759 patent claims. (Paper 9 at 1–29.) On December 23, 2021, the Board instituted an IPR proceeding based on OpenSky's Petition. (Paper 17 at 2.)

That same day, VLSI contacted OpenSky to discuss "resolving the matter." (Exs. 1064 and 1065.) By January 4, 2022, VLSI offered to pay $750,000 in exchange for OpenSky dropping the matter, including $500,000 if Intel was not permitted to join the proceeding. (Paper 84 at 4.) After OpenSky rejected that offer, VLSI repeatedly asked OpenSky to make a counterproposal and on February 23, 2022, OpenSky's counsel sent an e-mail which built on VLSI's "earlier [settlement] proposal." (Ex. 2055 at 1–2, 3.) However, VLSI abruptly ceased the discussions and, in violation of the parties' Confidentiality Agreement (Ex. 2094), publicly filed that e-mail in a different proceeding where the media could have access. (IPR2022-00645, Paper 54 at 1, 4; Ex. 2029.) VLSI did not argue that the Petition's filing or any other act by OpenSky amounted to an abuse of process, and instead argued that the February 23, 2022 e-mail was "misconduct" and violated unspecified Patent Office ("USPTO") rules.

On June 7, 2022, the Director initiated a first-of-its-kind review. (Paper 41

("DR") at 2.) One month later, a schedule issued explaining that the review involved "questions of first impression" concerning "abuse of process or conduct that otherwise thwarts, as opposed to advances[,] the goals of the Office and/or the AIA." (Paper 47 ("Schedule") at 7.) The parties were ordered to produce seven categories of documents ("Mandated Discovery") and to answer six interrogatories. (*Id*. at 8–11.) The Schedule expressly forbid the parties from submitting any "[n]ew declaratory evidence." (*Id*. at 11.) The parties also had to exchange privilege logs for documents withheld as privileged. (*Id*. at 11.) Further, any documents responsive to the Mandated Discovery withheld for privilege were subject to *in camera* review by the Director upon request of another party. (*Id*. at 10–11.) The parties were further requested to brief "policy issues and questions identified above." (*Id*. at 11–12.) Neither the DR nor the Schedule states that the Director was investigating OpenSky for of abuse of process. Neither document identifies the legal elements required for an abuse of process in an IPR or explains which of OpenSky's actions might constitute an abuse of process.

On August 4, 2022, OpenSky objected to providing a privilege log or producing privileged documents for *in camera* review by the Director and began producing non-privileged responsive documents. (Paper 54.) Compliance with the Schedule's *in camera* review process risked a waiver of OpenSky's privilege. (Paper 54 at 7–8; Paper 101 at 19–20.) After receiving Protective Order acknowledgements from VLSI and Intel, OpenSky completed its production of non-privilege responsive documents. On August 18, 2022, OpenSky also provided twelve pages of interrogatory answers. (Paper 71 at 6–18.)

On October 4, 2022, the OSC Decision was issued, which determines that OpenSky had committed (1) an abuse of process by filing the Petition and nine months later "express[ing] a willingness to abuse the process in order to extract the payment" from VLSI or Intel, and (2) an "abuse of process and unethical conduct by offering to undermine and/or not vigorously pursue" the IPR "in exchange for a monetary payment." (Paper 102 at 3, 28–44.) The decision separately sanctions OpenSky for discovery misconduct related to the Mandatory Discovery and applies a negative inference to "hold facts to have been established adverse to OpenSky" (*Id.* at 2–3, 20–24.) including as follows: (1) "OpenSky was formed for the express and sole purpose of extracting payment from VLSI or Intel." (*Id.* at 39.);
(2) OpenSky filed the Petition "for the improper purpose of extracting money from either or both Intel and VLSI." (*Id.* at 37; *see also id*. at 39); (3) "OpenSky initiated settlement negotiations" and did so "with VLSI before institution" (*Id.* at 30, 40.);[1]

[1] Contrary to this inference, the unrebutted evidence shows VLSI initiated settlement discussions with OpenSky before and after institution. (Exs. 1062–1065; Paper 92 at 9.)

and (4) "[S]ettlement negotiations between it and OpenSky culminated in a scheme proposed by OpenSky in an email dated February 23, 2022." (*Id.* at 31.) The OSC Decision does not address VLSI's January 4, 2022 offer to pay $750,000 to OpenSky in order to settle, with $500,000 contingent on Intel's joinder request being denied. (Paper 84 at 4.)

The OSC Decision further sanctions OpenSky by: (1) precluding OpenSky or its counsel from actively participating in the IPR proceeding, (2) precluding OpenSky "from filing further papers into the record or presenting further argument or evidence in the underlying proceeding or on Director review unless expressly instructed to do so by me or the Board," and (3) "order[ing] OpenSky to show cause why it should not be ordered to pay compensatory damages to VLSI … to compensate VLSI for its time and effort in this proceeding." (Paper 102 at 4.)

The OSC Decision does not cite any statutory authority expressly permitting an award of attorneys' fees to a party as a sanction for abuse of process or any other misconduct by another party during an IPR. The OSC Decision cites Section 316(a)(6) (*id.* at 44), which only says that the Director shall promulgate regulations "prescribing sanctions for abuse of discovery, abuse of process, or any other improper use of the proceeding." The OSC Decision declares that the USPTO's subsequent regulations authorize such compensatory attorneys' fee awards. (*Id.*, citing 37 C.F.R. §§ 42.12(a)(6), (b).)

The OSC Decision also fails to cite binding authority for how sanctions are properly determined, but states it "is a highly fact-specific question[] and the relevant considerations will vary from case to case" and a non-precedential panel decision had considered: (A) whether the party performed conduct warranting sanctions; (B) whether the conduct caused harm; and (C) whether potential sanctions are proportionate to the harm. (*Id.* at 26, *citing R.J. Reynolds Vapor Co. v. Fontem Holdings 1 B.V.*, IPR2017-01318, Paper 16 at 5 (PTAB Aug. 6, 2018)(non-precedential);[2] *see also* Paper 102 at 3, 32, *citing Woods Servs., Inc. v. Disability Advocs., Inc.*, 342 F. Supp. 3d 592, 606 (E.D. Pa. 2018) (abuse of process under Pennsylvania state law requires showing of harm to the plaintiff).)

ARGUMENT

I. OPENSKY IS NOT SUBJECT TO ANY ATTORNEYS' FEES SANCTION IN THIS *INTER PARTES* REVIEW PROCEEDING

A. The American Rule Precludes Attorneys' Fees Because No Statute Specifically and Explicitly Authorizes Such Fees

A bedrock principle of this country's jurisprudence is that each litigant pays

[2] *R.J. Reynolds Vapor* cites *Square, Inc. v. Think Computer Corp.*, CBM2014-00159, Paper 48 at 2 (PTAB Nov. 27, 2015) (non-precedential), which in turn cites *Ecclesiastes 9:10-11-12, Inc. v. LMC Holding Co.*, 497 F.3d 1135, 1143 (10th Cir. 2007). However, none of these three cases is binding authority for determining sanctions for abuse of process during an IPR proceeding.

their own attorneys' fees "unless a statute or contract provides otherwise." *Peter v. NantKwest*, 140 S. Ct. 365, 370 (2019). Departures from this "American Rule" require "specific and explicit provisions for the allowance of attorneys' fees under selected statutes." *Alyeska Pipeline Serv. Co. v. The Wilderness Soc'y*, 421 U.S. 240, 260 (1975); *see also Trapp v. U.S.*, 668 F.2d 1114, 1115–16 (10th Cir. 1977) ("Agencies may not award attorneys' fees without express statutory authority."); *Castillo v. Metro. Life Ins. Co.*, 970 F.3d 1224, 1232 (9th Cir. 2020) (when attorneys' fees not "expressly addressed" in statute, they are not authorized for agency proceedings).

General terms in statutory grants of authority like "expenses," "costs," or "damages" are not sufficient. In response to *Alyeska Pipeline*, Congress amended various statutes to specifically and expressly authorize attorneys' fees. Pub.L. 95-95, 91 Stat. 704, 777, 785, amending 42 U.S.C. §§ 7413, 7607, 7622; H.R. Rep. 95-294 (May 12, 1977) (explaining *Alyeska Pipeline* as the reason); Pub.L. 94-73, 89 Stat 404, amending 42 U.S.C. § 1973*l*(e), S.Rep. 94-295, at 42–43 (Jul. 22, 1975) (explaining *Alyeska Pipeline* as the reason).

The analysis to determine authorization for fee shifting "looks to the language of the section" at issue to determine whether Congress provided a sufficiently "specific and explicit" indication of its intent to overcome the American Rule's presumption against fee shifting. *Peter*, 140 S. Ct. at 372 (cleaned up). Here, no statute expressly authorizes attorneys' fees awards during IPR proceedings and the OSC Decision fails to cite any such express statutory authority. Section 316 gives the Director limited authority to "prescribe regulations" regarding IPR proceedings but makes no mention of attorneys' fees at all. Section 316(a) specifically delegates to the Director authority to "prescribe sanctions for abuse of discovery, abuse of process, or any other improper use of the proceeding," but does not mention attorneys' fees.

In *Peter*, the statute in question was Section 145, which states that "all the expenses of the [court] proceedings shall be paid by the applicant." The Court found that "even though the term 'expenses' was capacious enough to include attorney's fees," the statute "does not invoke attorney's fees with the kind of 'clarity we have required to deviate from the American Rule.'" *Peter*, 140 S. Ct. at 372. The fact that "'expenses' and 'attorney's fees' appear in tandem across various statutes shifting litigation costs indicates that Congress understands the two "terms to be distinct and not inclusive of each other." *Id.* at 373. Statutes that "refer to attorney's fees as a subset of expenses … show only that 'expenses' can include attorney's fees when so defined." *Id*. "[T]he term 'expenses' alone has never been considered to authorize an award of attorney's fees with sufficient clarity to overcome the American Rule presumption." *Id*. at 374.

Just as authority to award expenses was insufficient to award attorney's fees, Section 316(a)(6)'s use of the term "sanctions" is not sufficiently explicit or clear to provide authority for an attorneys' fee award. That "sanctions" might broadly encompass attorneys' fees is simply not enough. *See Key Tronic Corp. v. U.S.*, 511 U.S. 809, 813 (1992) (42 U.S.C. § 9607, which authorizes award of "necessary costs," is not sufficiently specific and explicit to overcome the American Rule and does not include attorneys' fees); *Summit Valley Indus. Inc., v. United Bhd. Carpenters & Joiners*, 456 U.S. 717, 722 (1982) (statute authorizing "damages" did not include attorney's fee awards).

The Court further explained, "when Congress intended to provide for attorney's fees in the Patent Act, it stated so explicitly." *Peter*, 140 S. Ct. at 373 (citing 35 U.S.C. §§ 271(e)(4), 273(f), 285, 296(b) and 297(b)(1)). "Because Congress failed to make its intention similarly clear in § 145, the Court will not read the statute to 'contravene fundamental precepts of the common law.'" *Id.* at 374. Similarly here, Congress's decision not to authorize attorneys' fees in the context of IPR proceedings cannot be disregarded. *See Russello v. United States*, 464 U.S. 16, 23 (1983); *see also Baker Botts L.L.P. v. ASARCO LLC*, 576 U.S. 121, 129 (2015) (refusing to award certain attorneys' fees based on broad language in 11 U.S.C. § 330(a)(1) where "other provisions of the Bankruptcy Code" expressly required paying "reasonable attorneys' fees and costs").

The Director cannot rely on inherent authority to impose attorneys' fees sanctions. Administrative agencies are "creatures of statute [with] only those powers conferred … by Congress." *Camelot Terrace, Inc. v. NLRB*, 824 F.3d 1085, 1089 (D.C. Cir. 2016). In *Camelot Terrace*, the court rejected a claim by the NLRB that it had "inherent authority" to impose attorney fees, because agencies "possess[ ] no extra-statutory inherent authority." *Id.* at 1090; *see also Ethicon v. Quigg*, 849 F.2d 1422, 1427 (Fed. Cir. 1988) ("The [Director] … has no inherent authority, only that which Congress gives."); *HTH Corp. v. NLRB*, 823 F.3d 668, 679 (D.C. Cir. 2016)(rejecting agency claim that it could order attorneys' fees under its statutory authorization, 29 U.S.C. § 160(c), "to take such [action] as will effectuate the policies of [the Act]," without a specific authorization for attorneys' fees). A desire to deter conduct is not a proper basis for attorneys' fees sanctions unless Congress has expressly authorized the agency to do so. *HTH*, 823 F.3d at 679–80.

Finally, the OSC Decision cites to one of the USPTO's regulations. (Paper 102 at 4, 50–51, citing 37 C.F.R. § 42.12(b)(6).) However, agency regulations cannot create authority that Congress has withheld.

Accordingly, the lack of explicit statutory authority prevents an award of attorneys' fees here.

B. The Director's Review Failed to Provide Adequate Notice and Opportunity to be Heard as Required by Constitutional and the Administrative Procedure Act Due Process

Attorneys' fees also cannot be awarded here because the Director's Review was procedurally deficient and failed to comply with notice requirements arising under constitutional and APA Due Process. Agencies must timely inform parties of the "matters of fact and law asserted" against them and to provide those parties with the "opportunity for … the submission of and consideration of facts [and] arguments." 5 U.S.C. §§ 554(b)(3), 554(c)(1); *Bowman Transp., Inc. v. Arkansas-Best Freight Sys., Inc.*, 419 U.S. 281, 288 n.4 (1974) ("A party is entitled, of course, to know the issues on which decision will turn and to be apprised of the factual material on which the agency relies for decision so that he may rebut it."); *EmeraChem Holdings LLC v. Volkswagen Grp. of Am., Inc.*, 859 F.3d 1341, 1348–49 (Fed. Cir. 2017) (APA Section 554(b) requires notice of reasonably specific pairings of legal elements and facts). The DR and Schedule failed to comport with these requirements of Due Process.

First, the DR and the Schedule failed to give OpenSky notice of the legal issue. The paper announcing the DR never uses the phrase "abuse of process." Likewise, although the Schedule mentions that term four times, it does so without expressly accusing OpenSky of having committed that tort or otherwise defining its legally required elements. (Paper 47 at 7–8.)

Abuse of process is not a federal common law tort. *Wheeldin v. Wheeler,* 373 U.S. 647, 652 (1963). Though Congress instructed the Director to "prescribe regulations" concerning "sanctions for abuse of process," Section 316(a)(6), the USPTO has not defined in its regulations what actions might constitute punishable abuse of process in the context of an IPR. And nothing previously indicated that motivation or improper thoughts at filing would constitute abuse of process. For example, the USPTO has repeatedly refused to award sanctions for abuse of process merely because an IPR Petitioner had a profit motive. *See*, *e.g.*, *Coalition for Affordable Drugs VI, LLC v. Celgene Corp.*, Case IPR2015-01092, Paper 18 at 3 (PTAB Sept. 25, 2015); *Mangrove Partners Master Fund, Ltd. v. VirnetX Inc.*, IPR2015-01047, Paper 11 at 9 (PTAB Oct. 7, 2015). The OSC Decision announces a new standard *post hoc* based on a mere "essence" of the tort and/or Pennsylvania state law (Paper 102 at 2–4, 24, 32) and simultaneously finds OpenSky guilty of abuse of process without previously informing OpenSky of that standard or adequately explaining why prior policies are being changed. *See Allstate Ins. Co. v. Hague*, 449 U.S. 302, 313 (1981). This deprived OpenSky of any previous standards of what constituted abuse of process and meaningful opportunity to respond to the serious allegation that it had committed an abuse of process during the IPR proceeding, and violates constitutional Due Process as well as APA Sections 554(b)(3) and 554(c)(1).

Second, the DR and Schedule also failed to give OpenSky notice of the factual basis for the abuse of process charge. While the Schedule asks the parties to answer interrogatories and for their views as to the "Scope of Director Review" (Paper 47 at 7–9), it offers no hint as to the factual basis for the abuse of process charge that eventually would emerge months later in the OSC Decision. Prior to the OSC Decision, OpenSky was never apprised that the Director believed (or was even considering) that the filing of the IPR Petition would be an abuse of process because of "bad" motivation, that OpenSky was being accused of extracting payments from multiple parties, or that there was a charge of a lack of willingness to participate in the IPR. (Paper 102 at 3, 43–44.) Although some specific occurrence must have prompted the Director's involvement, neither the DR nor the Schedule informed the Parties what activity was under scrutiny. But the breadth and vagueness of the Mandatory Discovery and interrogatories indicates that the Director was keeping any understanding of the facts or the facts to be elicited, close to the vest. This lack of notice denied OpenSky a meaningful opportunity to respond to the allegations against it. *See Rovalma, S.A. v. Bohler-Edelstahl GmbH & Co*, 856 F.3d 1019, 1029 (Fed. Cir. 2017) (adequate notice requires "attention called to" specific facts).

Thus orders leading to the OSC Decision failed to apprise OpenSky of the legal and factual bases for the contemplated abuse of process sanctions, which denied OpenSky a fair ability to respond and violated Due Process.

C. The Director's Review Deprived OpenSky of a Fair Opportunity to Present Relevant Evidence as Also Required by Constitutional and Administrative Procedure Act Due Process

The Schedule also improperly prevented OpenSky from presenting evidence in its defense. This violates constitutional and APA Due Process rights. APA Section 556(d) requires an agency to permit parties to formal agency adjudications "to present his case or defense by oral or documentary evidence, to submit rebuttal evidence, and to conduct such cross-examination as may be required for a full and true disclosure of the facts." Failure to do so invalidates any subsequent agency decisions in the adjudication. *See, e.g., Bowman Transp.*, 419 U.S. at 288 n.4 ("the Due Process Clause forbids an agency to use evidence in a way that forecloses an opportunity to offer a contrary presentation."); *North Am. Coal Co. v. Miller*, 870 F.2d 948, 949, 952 (3d Cir. 1989) (agency erred by foreclosing presentation of the only evidence directly responsive to an issue); *Ligon Specialized Hauler, Inc. v. ICC*, 587 F.2d 304, 317 (6th Cir. 1978) (show-cause order invalid if it forecloses a party's entitlement to present the evidence that the party considers most relevant).

The Schedule required OpenSky to answer various questions but precluded it from presenting new declaratory evidence. (Paper 47 at 8, 11.) OpenSky could not submit a new declaration, for example, reporting on various oral communications between the parties, explaining who initiated settlement discussions, detailing settlement offers made by VLSI, and otherwise explaining how those discussions had progressed. Compounding matters, the OSC Decision sanctions OpenSky in part for failing to cite appropriate "evidence" in its responses to the interrogatories. (Paper 102 at 21.)

Collectively, these actions deprived OpenSky of a fair opportunity to submit evidence in its defense and violated its Due Process rights.

D. The OSC Decision Improperly Applied Adverse Inferences Against OpenSky, Which Cannot Justify Imposition of Attorneys' Fee Sanctions

The OSC Decision further condemns the "quality" of OpenSky's document production and its failure to provide a privilege log, and imposes a negative inference on all issues, including those that were not in dispute. (Paper 102 at 3). However, a negative or adverse inference based on the lack of production requires a showing that has not been made here, i.e., that the missing documents actually exist. *Klotzbach-Piper v. Nat'l R.R. Passenger Corp.*, No. 18-cv-1702 (RC), 2021 WL 4033071, at *7 (D.D.C. Sept. 3, 2021) (denying adverse inference because it had not been "establish[ed] that relevant evidence existed and that the opposing party improperly failed to produce" them). This is because the first prong of determining the need for such a sanction is showing "the party ha[s] control over the evidence." *Jandreau v. Nicholson*, 492 F.3d 1372, 1375 (Fed. Cir. 2007); *Residential Funding Corp. v. DeGeorge Fin. Corp.*, 306 F.3d 99, 107 (2d Cir.

2002). The OSC Decision does not conclude that any non-privileged documents were withheld, destroyed, or ever existed, making a negative inference on all issues based on a lack of production improper.

Moreover, any negative or adverse inference must be based on a "nexus between the proposed inference and the information contained in the lost evidence." *Gates Rubber Co. v. Bando Chem. Indus., Ltd.*, 167 F.R.D. 90, 105 (D. Colo. 1996), citing *Turner v. Hudson Transit Lines*, 142 F.R.D. 68, 76 (S.D.N.Y.1991). That is, there must be some extrinsic evidence as to the content of the missing documents to determine to what extent the loss is prejudicial and what matters should be inferred. *Id*. citing *Nation–Wide Check Corp. v. Forest Hills Distrib., Inc.*, 692 F.2d 214, 218–19 (1st Cir. 1982). The OSC decision erred by applying a negative inference across the board without any plausible evidence that the allegedly missing documents had information relevant to the inferences made in the OSC Decision.

The OSC Decision also apparently imposes its adverse inference based on OpenSky's lack of a privilege log. (Paper 102 at 19–20.) OpenSky raised its objections. (Paper 54.) The USPTO's past practice has been to rule on objections and provide an opportunity to cure, before imposing sanctions. *See Ventex Co. Ltd. v Columbia Sportswear No. Am., Inc.,* IPR2017-00651, Paper 98 at 5 (PTAB Nov. 19, 2018). An agency acts arbitrarily when it changes its past practices without explanation. *Ramaprakash v. Federal Aviation Admin*., 346 F.3d 1121, 1124–25 (D.C. Cir. 2003) (Roberts, J.) (agency must provide "a reasoned analysis indicating that prior policies and standards are being deliberately changed, not casually ignored.").

Accordingly, the improper negative inferences found in the OSC Decision cannot justify attorney fee sanctions.

II. EVEN IF AN ATTORNEYS' FEE SANCTION WERE POSSIBLE, THE OSC DECISION FAILS TO SHOW ANY COMPENSABLE HARM TO VLSI CAUSED BY THE IDENTIFIED MISCONDUCT

A. OpenSky's Filing of a Compelling, Meritorious *Inter Partes* Review Petition Enjoys *Noerr-Pennington* Immunity and Cannot Give Rise to Sanctions Liability

The OSC Decision fails to acknowledge the *Noerr-Pennington* doctrine, which immunizes parties from liability for petitioning the government. *See Abbott Labs. v. Brennan*, 952 F.2d 1346, 1356 (Fed. Cir. 1991). *Noerr-Pennington* immunity applies to "common-law torts such as malicious prosecution and abuse of process." *Id.* at 1356. The doctrine's immunity also applies to administrative agency proceedings, including USPTO proceedings. *Prof'l Real Estate Investors, Inc. v. Columbia Pictures Indus.*, 508 U.S. 49, 57 (1993); *Abbott Labs.*, 952 F.2d at 1355–56. OpenSky's right to file an IPR petition is thus a private right protected by the First Amendment and Section 311(a) allowing any "person who is not the patent owner" to file IPR petitions, including OpenSky.

Noerr-Pennington immunity does have a narrow "sham exception." *Prof'l Real Estate Investors*, 508 U.S. at 60; *Abbott Labs.*, 952 F.2d at 1355–56. To pierce this immunity, the challenged action must be "objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits." *Id.* at 60–61. But OpenSky's Petition has been found meritorious in three separate reviews. The most recent OSC Decision not only does not find OpenSky's Petition was "objectively baseless," but rather finds the Petition presented a "compelling" and "meritorious" challenge to the '759 patent. (Paper 107 at 3 (institution necessary because Petition presented a compelling meritorious challenge to the patent); *see also* Paper 17 at 2 (instituting IPR); Paper 47 at 6, 45–50 (institution decision without error and refusing to dismiss Petition or terminate the proceeding).

While the OSC Decision makes adverse inferences about OpenSky's motive for filing the Petition (Paper 102 at 37, 39), these findings are irrelevant in view of the "objectively baseless" requirement. *Prof'l Real Estate Investors*, 508 U.S. at 60 (subjective prong not considered unless objectively baseless prong is shown).

In a parallel IPR proceeding, *Patent Quality Assurance, LLC v. VLSI Technology LLC*, VLSI argued that *Noerr-Pennington* immunity did not apply. (IPR2021-01229, Paper 76 at 23–24 (Sept. 7, 2022).) In doing so, VLSI relied on *BE&K Construction Co. v. NLRB*, 536 U.S. 516, 537 (2002), whose holding supports the application of *Noerr-Pennington* immunity here.

BE&K Construction reviewed an NLRB order imposing attorneys' fee sanctions against an employer for bringing a court action against a union regarding activities protected by the National Labor Relations Act. *Id*. at 523. The Supreme Court held that *Noerr-Pennington* immunity applied so long as the underlying action was not "objectively baseless" and vacated the sanctions because the underlying action was non-frivolous, while assuming the employer had an impermissible motive. *Id*. at 519–20, 522, 524, 536. Thus, *BE&K Construction* supports application of *Noerr-Pennington* immunity here—OpenSky's petition has repeatedly been found to be objectively reasonable and sanctions for filing should not be allowed.

Accordingly, the OSC Decision has not established a basis for awarding attorneys' fees to compensate VLSI for defending against OpenSky's compelling, meritorious IPR challenge, which enjoys *Noerr-Pennington* immunity.

B. OpenSky's Settlement Negotiations Did Not Harm VLSI

The OSC Decision criticizes OpenSky's settlement negotiations for "offering" in February 2022 "to undermine and/or not vigorously pursue" the IPR "in exchange for a monetary payment." (Paper 102 at 3, 29–32 (citing Ex. 2055)). The OSC Decision also says sanctions must be proportionate to the harm caused by the improper conduct.[3] (Paper 102 at 26 *citing R.J. Reynolds Vapor Co. v. Fontem Holdings 1 B.V.*, IPR201701318, Paper 16 at 5 (PTAB Aug. 6, 2018)). Similarly, *Woods Services* (cited by the OSC Decision) requires a showing of "harm" as an element of the tort, and that penalties scale to harm that "has been caused" by the misconduct. 342 F. Supp. 3d at 606; *see also In re Rembrandt Techs. LP Pat. Litig.*, 899 F.3d 1254, 1278 (Fed. Cir. 2018) ("the amount of the award must bear some relation to the extent of the misconduct" and "usually does not support a full award of attorneys' fees."). Attorneys' fees can only include "fees incurred because of the misconduct at issue" otherwise it "crosses the boundary from compensation to punishment." *Goodyear Tire & Rubber Co. v. Haeger*, 581 U.S. 101, 137 S. Ct. 1178, 1186 (2017).

However, the OSC Decision fails to identify actual harm to VLSI caused by this action. There was no harm. VLSI did not seriously entertain the construct put forward in the February 23, 2022 e-mail. VLSI abruptly ceased discussions and within nine days publicly filed the e-mail in a different proceeding. (IPR2022-00645, Paper 54 at 1, 4; Ex. 2029.) It is hard to fathom how VLSI or the process

---

[3] Any sanctions also "must be limited to what suffices to deter repetition of the conduct or comparable conduct by others similarly situated and should be consistent with § 42.12." (Paper 114 at 4.)

could have been harmed by such a private e-mail that was immediately rejected. For example, OpenSky's actions did not prolong the IPR proceeding or otherwise delay its resolution.

Accordingly, the OSC Decision has not established a basis for awarding attorneys' fees to compensate VLSI for OpenSky's February 23, 2022 e-mail.[4]

C. Any Discovery Misconduct During the Director's Review Also Did Not Harm VLSI

The OSC Decision finds OpenSky's responses to the Mandated Discovery and interrogatories "inadequate." (Paper 102 at 2–3, 19–25.) Again, the OSC Decision fails to identify any actual harm to VLSI caused by OpenSky's discovery misconduct. VLSI did not request this discovery or need the discovery for its primary case in the IPR. Accordingly, this conduct cannot justify the imposition of any attorneys' fee sanction.

Further, the Director's Review was (and is) ancillary to the Board's consideration of the Petition on its merits. Attorneys' fee recoveries are not permitted for ancillary litigation, such as the process of sanctioning. *Cooter & Gell v. Hartmarx Corp.*, 496 U.S. 384, 407 (1990); *see also Manion v. Am. Airlines,*

[4] The OSC Decision's other criticisms of OpenSky, e.g., for noticing a deposition four days before the reply brief was due (Paper 102 at 33–34, 42), are irrelevant. VLSI was not harmed by any of this conduct either.

Inc., 395 F.3d 428, 433 (D.C. Cir. 2004). Therefore, the Director's process of determining the sanctions, including the Mandated Discovery and the briefing by the parties, may not be included in any award of attorneys' fees.

Moreover, this satellite process was prompted by VLSI's litigation strategy of releasing the confidential e-mail and attempting to get the IPR terminated even though the Petition was certainly meritorious. It would be unjust to provide attorneys' fees to VLSI for actions that it voluntarily undertook as part of its litigation strategy. *See Dragon Intell. Prop., LLC v. DISH Network L.L.C.*, 956 F.3d 1358, 1362 (Fed. Cir. 2020). ("[W]e see no basis in the Patent Act for awarding fees under § 285 for work incurred in *inter partes* review proceedings that [Defendants] voluntarily undertook.").

Accordingly, the OSC Decision also has not established a basis for awarding attorneys' fees to compensate VLSI for OpenSky's alleged discovery misconduct during the Director's Review.

III. COMPENSATORY ATTORNEYS' FEES MUST BE LIMITED TO FEES CAUSALLY LINKED SOLELY TO THE SETTLEMENT OFFER AND/OR THE DISCOVERY MISCONDUCT

Assuming *arguendo* that compensatory attorneys' fees sanctions were permitted to be awarded during an IPR proceeding and that VLSI was actually harmed by OpenSky's misconduct, any attorneys' fee award still must be causally limited. The OSC Decision asks for the proper time period for sanctions.

(Paper 102 at 4, 51.) However, such sanctions must be tied to harm "solely" caused by the misconduct and may not be based on temporal limitations alone. *Goodyear Tire & Rubber*, 137 S. Ct. at 1184.

Regardless of OpenSky's motive for filing its IPR Petition, that filing itself was not misconduct and could not have resulted in any needless expenses. *See* Section II.A (above).

After institution of the IPR proceeding, the first misconduct identified in the OSC Decision was the February 23, 2022 e-mail from OpenSky's counsel to VLSI's counsel that built on an "earlier [settlement] proposal" from VLSI and included the construct of a proposed deal. (Ex. 2055 at 1–2.) To the extent this e-mail was misconduct, any harm solely caused by it was stopped within nine days by VLSI rejecting that construct on March 2, 2022. (Ex. 2094.) At most, VLSI could be compensated for the work performed by its counsel in considering this e-mail (but not for time otherwise spent on the IPR proceeding or VLSI's attempts to use the offer e-mail in the media or these proceedings to terminate the IPR).

The OSC Decision also pointed to OpenSky's alleged failure to comply with the Mandated Discovery and interrogatories. At most, that could give rise to a sixty-one-day period between when the Mandated Discovery was due and when the Director issued sanctions precluding OpenSky from further participating in the IPR: from August 4, 2022 to October 4, 2022. (Paper 51 at 4; Paper 102 at 4).

Again, any compensation must be limited to costs that VLSI can demonstrate were incurred because of the OpenSky's "inadequate" discovery responses.

CONCLUSION

For the reasons discussed above, the Director should determine that VLSI is not entitled to any monetary compensation. But if sanctions are permitted, then they must be limited to attorneys' fees, if any, directly incurred by and during consideration of the February 23rd e-mail or the alleged discovery misconduct as explained above.

Respectfully submitted,

Dated: November 17, 2022 By: / Matthew K. Blackburn /

Matthew K. Blackburn, Reg. No. 47,428
Evan Boetticher, Reg. No. 63,184
SULLIVAN BLACKBURN PRATT LLC
456 Montgomery St., Suite 900
San Francisco, CA 94104

David Boundy, Reg. No. 36,461
POTOMAC LAW GROUP, PLLC
P.O. Box 590638
Newton, MA 02456

CERTIFICATE OF SERVICE

I hereby certify that on November 17, 2022, a complete and entire copy of **Petitioner OpenSky**'s **Brief in Response to the Director**'s **Order of October 4, 2022** was served via electronic mail on the following attorneys of record for Petitioner Intel and Patent Owner:

PETITIONER INTEL CORPORATION:

Benjamin Fernandez
David Cavanaugh
Steven Horn
WILMER CUTLER PICKERING HALE AND DORR LLP
ben.fernandez@wilmerhale.com
david.cavanaugh@wilmerhale.com
steven.horn@wilmerhale.com

PATENT OWNER:

Baback Redjaian
IRELL & MANELLA LLP
bredjaian@irell.com

Kenneth J. Weatherwax
Bridget Smith
Flavio Rose
Edward Hsieh
Parham Hendifar
Patrick Maloney
Jason C. Linger
LOWENSTEIN & WEATHERWAX LLP
weatherwax@lowensteinweatherwax.com
smith@lowensteinweatherwax.com
rose@lowensteinweatherwax.com
hsieh@lowensteinweatherwax.com
hendifar@lowensteinweatherwax.com
maloney@lowensteinweatherwax.com
linger@lowensteinweatherwax.com

Dated: November 17, 2022 By: / Matthew K. Blackburn /

Matthew K. Blackburn, Reg. No. 47,428
Evan Boetticher, Reg. No. 63,184
SULLIVAN BLACKBURN PRATT LLC

David Boundy, Reg. No. 36,461
POTOMAC LAW GROUP, PLLC