Case Nos. 23-2158, 23-2159

United States Court of Appeals for the Federal Circuit

VLSI TECHNOLOGY LLC,
Patent Owner-Appellant,

v.

OPENSKY INDUSTRIES, LLC,
Petitioner-Cross-Appellant,
and

INTEL CORPORATION,
Petitioner-Appellee, and

COKE MORGAN STEWART, Acting Under Secretary of Commerce for Intellectual Property and Acting Director of the United States Patent and Trademark Office,
Intervenor.

Appeal from the United States Patent & Trademark Office,
Patent Trial and Appeal Board, Proceeding No. IPR2021-01064

NONCONFIDENTIAL PRINCIPAL AND RESPONSIVE BRIEF OF CROSS-APPELLANT OPENSKY INDUSTRIES, LLC

February 3, 2025

David E. Boundy

POTOMAC LAW GROUP, PLLC
P.O. Box. 590638
Newton, MA 02459
Tel. 646.472.9737
DavidBoundyEsq@gmail.com

Counsel for Cross-Appellant OpenSky Industries, LLC

EXEMPLARLY PATENT CLAIM

1. A method comprising:
    monitoring a plurality of master devices coupled to a bus;
    receiving a request, from a first master device of the plurality of master devices, to change a clock frequency of a high-speed clock, the request sent from the first master device in response to a predefined change in performance of the first master device, wherein the predefined change in performance is due to loading of the first master device as measured within a predefined time interval; and
    in response to receiving the request from the first master device:
        providing the clock frequency of the high-speed clock as an output to control a clock frequency of a second master device coupled to the bus; and
    providing the clock frequency of the high-speed clock as an output to control a clock frequency of the bus.

CERTIFICATE OF INTEREST

Counsel for Cross-Appellant OpenSky certifies the following:

1. **Represented Entities.** The full name of every entity represented by undersigned counsel in this case:

   OpenSky Industries, LLC

2. **Real Party in Interest.** The names of the real parties in interest represented by me are as named in 1.

3. **Parent Corporations and Stockholders.** All parent corporations and any publicly held companies that own 10 percent or more of the stock of any entity represented by me are: None

4. **Legal Representatives.** The names of all law firms, partners, and associates that have appeared for the represented entities in the trial court or agency or are expected to appear in this court, and have not already entered an appearance in this court, are:

   AMIN, TUROCY & WATSON LLP, Andrew T. Oliver, Vinay V. Joshi

   SULLIVAN BLACKBURN PRATT LLP, LEWIS & ROCA LLP, AND WOMBLE BOND DICKINSON (US) LLP, Matthew K. Blackburn and Evan E. Boetticher

5. **Related Cases** that meet the criteria of Fed. Cir. R. 47.4(a)(5): None.

6. This is neither a criminal case with organizational victims, nor a bankruptcy.

Date: February 3, 2025

/s/ David E. Boundy
David E. Boundy
Counsel for Cross-Appellant OpenSky Industries, LLC

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CONFIDENTIAL MATERIAL OMITTED

Material has been redacted from the Addendum (but not from any motion, petition, response, reply, or brief). Pages Appx00209-39 are an order of the Director from which appeal is taken. Pages Appx00234 and Appx00236 omit information reflecting hourly billing rates of VLSI's counsel. Pages Appx00209-39 reflect the Director's redaction of a confidential-information header, which does not itself contain confidential information.

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JURISDICTIONAL STATEMENT

Cross-appellant OpenSky concurs with VLSI's jurisdictional statement (ECF 54 at 3).

STATEMENT OF RELATED CASES

No appeal from this *inter partes* review ("IPR") proceeding has previously been before this Court or any other court.

This appeal may affect or be directly affected by the following cases: VLSI asserted the '759 patent (among others) in *VLSI Tech. LLC v. Intel Corp.,* Nos. 1:19-cv-00977, 6:19-cv-00254, 6:21-cv-00057, and 6:21-cv-00299 (W.D. Tex.) and *VLSI Tech. LLC v. Intel Corp.,* No. 1:19-cv-00426 (D. Del.). The following *inter partes* review proceedings also have involved the '759 patent: *Intel Corp. v. VLSI Tech. LLC*, No. IPR2020-00106, *Intel Corp. v. VLSI Tech. LLC*, No. IPR2020-00498, *Intel Corp. v. VLSI Tech. LLC*, No. IPR2022-00366; and *Patent Quality Assurance, LLC v. VLSI Tech. LLC*, No. IPR2022-00480. In addition, there have been several prior appeals to this Court relating to the '759 patent, including *VLSI Tech. LLC v. Intel Corp.*, No. 22-1906 (Fed. Cir.), *Intel Corp. v. VLSI Tech. LLC*, No. 21-1614 (Fed. Cir.), and *Intel Corp. v. VLSI Tech. LLC*, No. 21-1617 (Fed. Cir.).

INTRODUCTION

Everyone—*everyone*—who comes to the USPTO seeks to improve their economic station. IPR petitioners too. Congress has granted everyone (other than the patent owner) the right to request review of issued patents. 35 U.S.C. § 311. Several creative business models have been developed to attempt to profit from asserting this right. This includes a member-based organization that challenges patents that could be asserted against its members, and a short-seller hedge fund who used IPRs to manipulate the stock market. Often, such IPR petitioners explain a social benefit from their actions, such as invalidating "bad" patents or lowering drug prices. OpenSky found and pursued another potentially profitable business model, reviving meritorious petitions unfairly denied under *Fintiv*. Whatever one thinks of this business model, OpenSky did nothing more than aggressively assert its legal rights. It broke no laws and did nothing to sabotage the IPR trial here.

At least two Senators appear to dislike OpenSky's business model. They are entitled to their opinions, and legislation has been introduced to add a standing requirement to IPRs to curb whatever problem they perceive. But under the current statute, opinions of individual

legislators do not empower the Director to shirk the constraints of the Administrative Procedure Act ("APA") and the constitution. But that is exactly what happened here. The Director succumbed to political pressure to punish OpenSky and ran roughshod over the APA and the constitution to impose hefty fines on OpenSky for daring to attempt to profit from filing a meritorious IPR petition.

ISSUES PRESENTED

1. Did the Director act in excess of statutory authority by awarding VLSI attorney fees in IPR2021-01064 where the statute does not "specifically and explicitly" authorize an attorney fee award, as required by the "American Rule" and governing Supreme Court precedent?

2. Was the Director's award of sanctions "arbitrary and capricious" or "contrary to constitutional right or immunity," 5 U.S.C. § 706(2)(A) or (B), because the award penalizes an objectively-reasonable petition immunized under the *Noerr-Pennington* doctrine?

3. Was the Director's sanction award an abuse of discretion or contrary to law, because it failed to make showings of "sole," "but for" causal links between wrongful conduct and costs, as required by *Goodyear Tire & Rubber Co. v. Haeger*, 581 U.S. 101 (2017)?

4. Were the Director's determination of abuse of process and award of attorney fees contrary to constitutional right or immunity, short of statutory right, arbitrary and capricious, or unsupported by substantial evidence, for failure to provide OpenSky with notice and opportunity to present its case, failure to observe requirements for an agency's receipt of substantial evidence, and failure to provide the "cogent explanation" required by the APA?

STATEMENT OF THE CASE

According to Intel, this case began with a scheme of two foreign-owned companies: a multi-billion-dollar hedge fund named Fortress Investment Group LLC ("Fortress"), owned by Japanese investment bank Softbank, and NXP Semiconductor, a Dutch competitor to Intel. Fortress agreed to acquire hundreds of NXP's patents and assert them through its VLSI subsidiary for many billions of dollars against Intel across multiple different actions in Texas, Delaware, and California, with Fortress effectively acting as a profiteering stalking horse for Intel's Dutch competitor. Appx01677.

Intel filed timely IPR petitions against the '759 patent. Appx01679. But the Board denied Intel's petitions without reaching the unpatentability merits, citing *Apple Inc. v. Fintiv, Inc.*, 2020 WL

2126495 (PTAB Mar. 20, 2020) (precedential). Appx17159-17173; Appx18168-18179.

In March 2021, a Texas jury found infringement of the '759 patent and awarded VLSI $675 million in damages, and $1.5 billion in damages for infringement of another patent. Appx4798-4803.

On June 7, 2021, OpenSky filed petitions challenging both patents found infringed in Texas. Appx00044-45; *OpenSky Indus., LLC v. VLSI Tech. LLC*, IPR2021-01056, Paper 2 (June 7, 2021). The petitions copied Intel's prior petitions, reused the same exhibits and expert declarations, and were filed without contacting Intel's experts to avoid creating real party in interest issues. Appx00044-45. As OpenSky explained to the Director, it filed the petitions to highlight issues with the *Fintiv* doctrine and address the injustice of a U.S. chipmaker facing over $2 billion in damages for patents the Board refused to review. Appx01713-14.

On July 7, 2021, Patent Quality Assurance (PQA) filed a petition copied from Intel's petition on the other Texas-asserted patent, but unlike OpenSky, PQA contacted Intel's experts beforehand and inked a supposedly exclusive agreement with at least one expert to prevent the expert from testifying in any trial based on OpenSky's petition. *Patent*

Quality Assurance, LLC v. VLSI Tech. LLC, IPR2021-01229, Paper 1 (July 7, 2021).

On August 6, 2021, VLSI contacted OpenSky about settling the two IPRs filed by OpenSky. Appx01704. On August 30, 2021, VLSI and OpenSky entered into a confidentiality agreement to discuss settlement. Appx10982-87. On or around September 2, VLSI and OpenSky discussed potentially settling their dispute. Appx10988. OpenSky made no offers at this time. *Id.* And then nothing else happened until the Board rendered its institution decisions.

In late December, the Board found substantive merit in OpenSky's copied petitions but instituted trial only on the '759 patent, declining the other due to PQA's representation that its exclusive retainer agreement barred an expert from testifying for OpenSky. Appx01216; *OpenSky Indus., LLC v. VLSI Tech. LLC*, IPR2021-01056, Paper 18, 4-9 (PTAB Dec. 23, 2021). Trial was instituted on PQA's petition for the second patent. *Patent Quality Assurance, LLC v. VLSI Tech. LLC*, IPR2021-01229, Paper 10, 2 (PTAB Jan. 26, 2022).

After trial was instituted, VLSI proposed settling OpenSky's IPR for up to $750,000—$250,000 upon agreement to terminate and $500,000 if termination occurred without joinder. Appx01771. A few

weeks later, OpenSky made a counter-proposal to VLSI. Appx10355-59. If VLSI had agreed to this plan, it was always OpenSky's intention to document every facet of the agreement in a written settlement agreement that would be filed pursuant to 35 U.S.C. § 317. Appx01709. But VLSI did not respond to this counter proposal.

Instead, in violation of the written NDA covering all settlement communications, VLSI publicly filed OpenSky's email as an exhibit to one of VLSI's papers in a parallel proceeding. *OpenSky Indus., LLC v. VLSI Tech. LLC*, IPR2022-00645, Paper 8, Exhibit 2029. The email and VLSI's hyperbolic characterizations of it were soon spread far and wide by media and bloggers. Appx10367-89. It also led to scrutiny from Senators Hirono and Tillis. Appx10352; Appx10955-57. Citing the confidential email, the Senators pushed the Director to sanction OpenSky. Appx10955-57. Succumbing to this pressure, on June 7, 2022, Director Vidal *sua sponte* ordered Director Review of the institution decision. Appx01449.

On July 7, 2022, in Paper 47, the Director explained the background leading to Director Review: VLSI had requested rehearing and a Precedential Opinion Panel review. Appx01449. The Director acknowledged that she "discern[ed] no error in the Board's decision to

institute review of [OpenSky's] meritorious Petition." Appx00029. This marked the second time OpenSky's petition was found meritorious.

Because "existing regulations do not attempt to specify what acts constitute an abuse of process," Appx00065, Paper 47 solicited rule-making type feedback. There were "questions of first impression" about how to handle "allegations of abuse of process" or "conduct that otherwise thwarts, as opposed to advances, the goals of the Office and/or the AIA." Appx00030. Accordingly, Paper 47 invited the parties and amici to help shape the standard by briefing (1) the actions the Director or Board should take when facing such conduct, and (2) how to determine whether it qualifies as an abuse. Appx00030-32. Paper 47 stressed that these questions concern "the Office in fulfilling its mission" and "the patent community at large," signaling that no shared understanding existed at the time and, for all intents and purposes, calling for input on future policy. Appx00031.

Paper 47 also ordered the parties to produce documents and answer several interrogatories. Appx00031-33. Paper 47 required that answers to the interrogatories cite "supporting documentary" evidence while simultaneously prohibiting the parties from introducing new "declaratory evidence." Appx00031, Appx00034. Paper 47 did not

explain any exception to the APA's guarantee that "a party is entitled to present [their] case or defense by oral or documentary evidence," 5 U.S.C. § 556(d), or the corresponding guarantee of Fifth Amendment due process. Paper 47 also required that the parties submit a privilege log and "file" with the "Office" any document another party identifies for *in camera* inspection. Appx00034. Paper 47 did not identify any exception to the assurance that the PTAB had given in promulgating its regulations in 2012, discovery of "anything … protected by legally recognized privileges" would not be required. *Contrast* Appx00055 *against* Rules of Practice for Trials Before the Patent Trial and Appeal Board and Judicial Review of Patent Trial and Appeal Board Decisions; Final Rule, 77 Fed. Reg. 48611, 48637 (Aug. 12, 2012)

On October 4, 2022, after the parties and amici submitted the requested briefs, the Director issued Paper 102 regarding abuse of process. Appx00038-89. Paper 102 is striking: it is simultaneously the indictment, the first paper to set forth the Director's specific fact and legal contentions, and the jury form stating the verdict. In Paper 102, the Director first examined OpenSky's objections and responses to the discovery mandated by Paper 47. Without giving notice or opportunity

to be heard, and without allowing for cure, the Director determined OpenSky had engaged in "discovery misconduct." Appx00052-65.

The Director sanctioned OpenSky for the alleged discovery misconduct by holding "disputed facts as established against OpenSky." Appx00064. In addition, the Director leapt to adverse inferences for facts that were *not* in dispute, including that OpenSky had initiated settlement discussions. Appx00067.

Based on the adverse inferences, Paper 102 decided liability: OpenSky "abused the IPR process by filing this IPR in an attempt to extract payment from VLSI and joined Petitioner Intel" and that "OpenSky engaged in abuse of process and unethical conduct by offering to undermine and/or not vigorously pursue this matter in exchange for a monetary payment." Appx00040. Paper 102 is the first time the Director gave notice of specific facts at issue in the abuse of process inquiry.

Paper 102 never actually identifies and proves up the elements of the supposed abuse of process. Instead, Paper 102 recites a variety of standard IPR-related actions—such as filing a petition despite not being sued for infringement, Appx00073, filing a so-called "copycat" petition, Appx00079-80, and timing the filing after a large jury verdict.

Appx00076. The Director expressly notes that none of these acts is, by itself, inherently improper, and, more importantly, Paper 102 does not identify them as components of "abuse of process." Instead, Paper 102 points to each as evidence of OpenSky's supposed "improper purpose." Appx00072-80. Ultimately, there are only two acts that Paper 102 connects to "abuse of process": (1) "filing this IPR in an attempt to extract payment" and (2) "offering to undermine and/or not vigorously pursue this matter in exchange for a monetary payment." Appx00040, Appx00080-81; *see also* Appx00104 (OpenSky "abused the *inter partes* review ('IPR') process by filing an IPR in an attempt to extract payment …, and expressing a willingness to abuse the process in order to do so").[1]

The Director "remanded" the matter to the Board to determine whether the merits of the petition were compelling. Paper 102 also

[1] Paper 102 fails to note that OpenSky fulfilled all of the traditional responsibilities of an IPR petitioner. OpenSky produced its technical expert for deposition. Appx10528. OpenSky paid for the expert's time preparing and testifying. Appx10546 19:17-20. OpenSky took the deposition of VLSI's technical expert witness. Appx05767-68. OpenSky filed the Petitioner Reply on July 11, 2022. Appx01525-56.

demoted OpenSky to a "silent understudy," elevated Intel to the primary petitioner, and precluded OpenSky from any further filings, unless in direct response to an order from the Director. Appx00084.

Paper 102 also ordered OpenSky to "show cause as to why it should not be ordered to pay compensatory expenses, including attorney fees, to VLSI as a further sanction for its abuse of process." Appx00087-88. Notably, the abuse of process findings in Paper 102 excluded the alleged discovery misconduct, treating it as a distinct violation warranting adverse inferences, but *not* monetary sanctions.[2] The terms of the "order to show cause" as to attorney's fees were limited to just the finding of abuse of process, and did not include the alleged discovery misconduct. Appx00087-88.[3]

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[2] The Director's analysis of discovery misconduct is confined to the "FAILURE TO COMPLY" section of Paper 102. Appx00052-65. The only adjudication of discovery misconduct was the application of adverse inferences against OpenSky. Appx00064 ("I determine that ***the*** proper sanction is to hold disputed facts as established against OpenSky.") (emphasis added).

[3] *Cf. Patent Quality Assurance, LLC v. VLSI Technology LLC*, IPR2021-01229, Paper 131 at 43 (Aug. 3, 2023) (ordering PQA to "show cause" why the Director should not award attorneys fees for refusing to comply with the mandated discovery).

Paper 102 also gagged OpenSky's ability to defend the sanctions proceeding, particularly as the Director changed theories and raised new issues paper-to-paper: "OpenSky will be prevented from presenting or contesting any particular issue; … filing any additional papers; … unless specifically authorized to do so…."). Appx00084. In Paper 109, the Director further restricted OpenSky's ability to present its case, stating that OpenSky was not allowed to "reply" to Paper 102 but was "limited to briefing on a narrow issue, i.e., whether OpenSky should be ordered to pay compensatory expenses, including attorney fees and, if so, how such fees should be determined. OpenSky's brief must respond to those questions only." Appx02665. The Director never explained how these orders are consistent with the right to adduce evidence and to be heard provided by 5 U.S.C. § 554(c), § 556(d), and the Fifth Amendment's due process clause.[4]

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[4] This Court has not yet decided whether Director Review is "formal adjudication" governed by §§ 554 and 556. *Carucel Investments L.P. v. Vidal*, 2023 WL 8888644, at *10 (Fed. Cir. 2023) (nonprecedential). However, first, the Director insisted that Director Review is "central" to the IPR process, Appx00136, and therefore is governed by the law that governs IPRs. IPRs are "formal adjudication." *Belden*, 805 F.3d at

On October 14, 2022, the Board issued its decision on remand finding that OpenSky's petition was a compelling, meritorious challenge. Appx00100. This marked the third time OpenSky's petition was found meritorious.

OpenSky filed its response to Paper 102 on November 17, 2022, Appx02740-72, and filed its reply to VLSI's response on December 5, 2022. Appx02841-55 Among other things, OpenSky explained that the statute does not confer authority to order attorney fee sanctions, that sanctioning a meritorious petition violated the *Noerr-Pennington* doctrine, that the APA and constitutional due process had been violated, and that the Director had not made showings to meet the "but

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1080. Second, this Court has held that due process rights of § 554 apply even in informal adjudications such as reexaminations. *In re Stepan Co.*, 660 F.3d 1341, 1345 (Fed. Cir. 2011). Fourth, the rights under § 554 and 556 invoked in this brief have parallel rights under Fifth Amendment due process, Henry Friendly, *Some Kind of Hearing*, 123 U.Pa.L.Rev. 1267, 1281 (1975), and the "substantial evidence" requirement of *In re Gartside*, 203 F.3d 1305, 1316 (Fed. Cir. 2000).

for" causation standard of *Goodyear*, 581 U.S. 101 (2017) and *Cooter & Gell v. Hartmarx*, 496 U.S. 384 (1990).

On December 22, 2022, the Director affirmed the Board's compelling merits decision. Appx00119-120. This marked the fourth time OpenSky's petition was found meritorious.

On February 3, 2023, the Director issued Paper 127, which awarded attorney fees against OpenSky and authorized VLSI to file a motion to quantify its fees. Appx00126-41. Perhaps recognizing that *Noerr-Pennington* precluded finding that OpenSky "abused the IPR process by filing this IPR" with an intent deemed improper, this order recharacterizes the basis for the Director's findings in Paper 102 and pivots to an amorphous "totality" of conduct rationale. The Director stated that "I am not sanctioning OpenSky based on whether it filed a meritorious Petition, I am imposing sanctions because of the manner in which OpenSky conducted itself after the petition was filed" and that "[m]y conclusion and related sanctions were based on the totality of OpenSky's conduct." Appx00134-35. But as detailed above, Paper 102 only ordered OpenSky to "show cause why it should not be ordered to pay compensatory expense, including attorney fees, to VLSI as a further sanction for its abuse of process." Appx00087-88.

The Director responded to OpenSky's challenge to her statutory authority by pointing to a regulation, Appx00129, without addressing the statutory construction issue presented, and without explaining how a regulation can confer authority that a statute withheld. The Director responded to OpenSky's APA and constitutional due process issues by stating that OpenSky had not objected in a separate paper, Appx00131, without explaining why these protections have to be requested instead of honored by the adjudicator as a matter of course.

On May 12, 2023, the Board issued its final written decision. Appx00163-206. That decision found all challenged claims to be unpatentable. Appx00206. This marked the fifth time that OpenSky's petition was found meritorious.

On February 27, 2023, VLSI filed its motion for fees. Appx02940-73. This was VLSI's first motion on any issues relating to seeking attorney's fees from OpenSky for an alleged abuse of process. From Paper 47 until this point, the Director had inserted herself as an adversary, exercising the powers of a party—injecting new issues into the proceeding, requesting discovery and the like—while simultaneously acting as the adjudicator.

Finally, on December 15, 2023, after receiving further briefing from all parties regarding the amount of attorney fees to award, the Director issued an order awarding VLSI $413,264.15 in attorney fees from OpenSky. Appx00209-37. Paper 147 refuses to consider a challenge to several of the Director's previous legal findings. Appx00211. Paper 147 also declines to apply the Supreme Court's "but for" causation rule for calculation of attorney fees. Appx00224.

SUMMARY OF THE ARGUMENT

1. The Director has no authority to award attorney fees against OpenSky. This is because "specific and explicit" statutory authorization is required for an award of attorneys' fees. *Peter v. NantKwest, Inc.*, 589 U.S. 23, 30 (2019). And there is no such authority in 35 U.S.C. § 316(a)(6), the relevant statute here. Section 316(a)(6) only says that "[t]he Director shall prescribe regulations … prescribing sanctions for abuse of discovery, abuse of process, or any other improper use of the proceeding." Section 316(a)(6) says nothing of "attorney fees." Bare reference to "sanctions" without any reference to attorney fees does not provide the specific and explicit authority that settled precedent demands. Nor is there evidence of Congressional intent to have provided such authority. If anything, similar statutes suggest that

Congress intended to withhold such authority. Nor can the USPTO's rules, the Director's desire to "punish" OpenSky, or the Director's inherent authority bootstrap authority to the Director that the statute does not provide.

2. The Director's sanctions against OpenSky penalize conduct protected under the *Noerr-Pennington* doctrine, which shields petitioning activity and "ancillary" litigation conduct from liability unless it qualifies as "sham litigation." The Director improperly conflated lawful non-sham petitioning with alleged improper motives.

3. In 2017, the Supreme Court's *Goodyear* decision clarified procedural requirements and substantive limitations on attorney fee sanctions: attorney fees are only awardable for costs that were "solely," "but for" caused by sanctionable conduct. *Goodyear*, 581 U.S. at 104. The Director's Decisions (a) concede that no conduct at issue was sanctionable, but stood only as evidence of "intent" or "motivation," (b) fail to offer any explanation of causal connection, and (c) instead the Director coins hitherto-unknown tests.

4. The Administrative Procedure Act, in 5 U.S.C. §§ 554 and 556, and the due process clause of the Fifth Amendment, set certain procedural minima for agency adjudication: a party must be given

notice of "prompt notice of issues controverted in fact or law," is entitled to present evidence and arguments of the party's choice, etc., and decisions must be based on substantial evidence. In this case, the Director improvised procedures, imposed gag orders, and employed fact-finding procedures that are well below statutory and constitutional guarantees.

ARGUMENT

I. Standard of Review

Agency actions, findings, and conclusions must be set aside if "arbitrary, capricious, an abuse of discretion," "otherwise not in accordance with law," "contrary to constitutional right, power, privilege, or immunity," "in excess of statutory … authority," or "unsupported by substantial evidence." 5 U.S.C. §§ 706(2)(A), (B), (C), (E); *see also Personal Web Techs., LLC v. Apple, Inc.*, 848 F.3d 987, 992 (Fed. Cir. 2017).

When assessing whether the Director's actions are contrary to constitutional right, power, privilege, or immunity, the review is *de novo*. *See, e.g.*, *Schaeffler Grp. USA, Inc. v. United States*, 786 F.3d 1354, 1358 (Fed. Cir. 2015).

When assessing whether the Director's actions are not in accordance with law, statutory interpretation is a matter of law reviewed *de novo*. *Merck & Co. v. Kessler*, 80 F.3d 1543, 1549 (Fed. Cir. 1996); *see also Loper Bright Enters. v. Raimondo*, 603 U.S. 369, 412 (2024) ("Courts must exercise their independent judgment in deciding whether an agency has acted within its statutory authority ….").
Application of an incorrect legal standard is an abuse of discretion, *Cooter & Gell*, 496 U.S. at 405 (1990). 5 U.S.C. § 706(2)(A).

A Director's decision "must articulate logical and rational reasons" for that decision. *Personal Web Techs.*, 848 F.3d at 992 (cleaned up). The Director's Decision is "arbitrary and capricious" if the agency failed to explain a "rational connection between the facts found and the choice made," or "if the agency has relied on factors which Congress has not intended it to consider, [or] entirely failed to consider an important aspect of the problem." *Motor Vehicle Mfrs. Ass'n of U.S., Inc. v. State Farm Mut. Auto. Ins. Co.*, 463 U.S. 29, 43 (1983); *see also Personal Web Techs.*, 848 F.3d at 992. An agency decision is "arbitrary and capricious" if the reasoning is internally inconsistent, for example if two sets of findings rely on incompatible underlying bases, *ANR Storage Co. v. Federal Energy Regulatory Comm'n*, 904 F.3d 1020, 1024, 1026 (D.C.

Cir. 2018), and if inconsistent with past decisions without explanation. *FCC v. Fox Television Stations, Inc.*, 556 U.S. 502, 515-16 (2009); *ANR Storage*, 904 F.3d at 1024-25. Sanctions decisions that are "clearly unreasonable, arbitrary, or fanciful," rest on legal or clear factual error, or are unsupported by "evidence on which the [agency] could rationally base its decision," must be overturned. *Apple Inc. v. Voip-Pal.com, Inc.*, 976 F.3d 1316, 1322-23 (Fed. Cir. 2020).

Agency action may be affirmed only on the same basis articulated by the agency itself. *Burlington Truck Lines, Inc. v. United States*, 371 U.S. 156, 168-69 (1962); *SEC v. Chenery Corp.*, 332 U.S. 194, 196 (1947).

II. The Director's Decision Should be Set Aside as "In Excess of Statutory Authority" Because Congress Did Not Authorize Award of Attorney Fees

A. 35 U.S.C. § 316 Lacks the "Specific and Explicit" Statutory Authorization Required for an Award of Attorneys Fees

The "American Rule" is that each litigant pays their own attorneys' fees "unless a statute or contract provides otherwise." *NantKwest*, 589 U.S. at 28. Departures require a "specific and explicit" indication from Congress that Congress intends to overcome the American Rule's presumption against awards of attorney fees.

NantKwest, 589 U.S. at 30 (quoting *Alyeska Pipeline Serv. Co. v. The Wilderness Soc'y*, 421 U.S. 240, 260 (1975)). This "specific and explicit" bar is "high." *Hyatt v. Hirshfeld*, 16 F.4th 855, 858 (Fed. Cir. 2021). The American Rule binds administrative agencies, too. *See 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).

Section 316 does not expressly mention "attorney fees." The Director attempts to overcome this deficiency by arguing this award was a permissible "sanction" under § 316. Appx00129. That is not enough. The requirement for "specific and explicit" Congressional authorization for attorney fee awards is strictly applied and the Supreme Court has repeatedly declined to find authority to award attorney fees in general language. *See NantKwest*, 589 U.S. at 31-32; *Baker Botts, L.L.P. v. ASARCO LLC*, 576 U.S. 121, 131-32 (2015). "Mere generalized commands" do not authorize attorney fee awards. *Key Tronic Corp. v. United States*, 511 U.S. 809, 815 (1994) (cleaned up).

Recent Supreme Court precedents confirm that broad general words are insufficient to authorize attorney fees specifically. In *NantKwest*, the government argued that requiring the applicant to pay

"[a]ll the expenses of the proceedings" when bringing civil actions challenging PTO decisions under 35 U.S.C. § 145 included the PTO's attorneys' fees. 589 U.S. at 30-31. The Court rejected that reading, finding 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.'" *Id.* at 31 (quoting *Baker Botts*, 576 U.S. at 128). And while some statutes awarded attorney fees as a subset of expenses through phrases like "reasonable expenses, including attorneys' fees," the use of the broader term "expenses" alone does not convey authority to award attorney fees. *Id.* at 31-32 (quoting 28 U.S.C. § 361).

OpenSky has not found any case or statute that authorizes attorney fees via language as generic as "sanctions." A 2009 Congressional Research Service Report cataloging some four hundred statutes that expressly or impliedly authorize attorney fees didn't either. *See* Congressional Research Service, *Awards of Attorneys' Fees by Federal Courts and Federal Agencies*, CRS Report 94-970 update of

Oct. 22, 2009, at 57-117.[5] In nearly every single statute catalogued in that report, the language chosen by Congress is "attorney fees" or "compensation of counsel" or "value of the attorney's time" or something similarly "specific and explicit," or a cross-cite to another statute with such language. *Id.* The only arguable exception uses the term "damages." 28 U.S.C. § 1912 (allowing an award of "just damages"). But this statute also appears to be a codification of the long-standing "bad faith" exception to the American rule, which is "unquestionably [an] assertion[] of inherent power of the courts." *See Aleyska* at 257-259.

Baker Botts reinforces this conclusion. There, 11 U.S.C. § 330(a)(1) allowed "reasonable compensation" for attorneys in bankruptcy cases—language that expressly addressed attorney compensation. 576 U.S. at 125. That statute indisputably covers attorney fees for the attorneys hired to assist the trustee in the principal case. *Id.* 128. Even so, the Court refused to stretch the text of that statute to cover fees incurred in litigating disputes over the amount of fees owed, because the statute did not provide specific and explicit authorization for such fees-on-fees. *Id.*

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[5] Available at https://www.everycrsreport.com/reports/94-970.html.

at 127-129, 131-32. If even language envisioning payment to attorneys was not specific and explicit enough to allow fee-on-fee awards, then the far more generic reference to "sanctions" in § 316(a)(6) cannot authorize it here.

Under the "American Rule" principle of statutory construction, the word "sanctions" in § 316 is insufficiently "specific and explicit" to authorize attorney fees.

B. There is no Evidence Congress Intended to Authorize Attorney Fee Awards for IPRs

Congress has long understood the importance of clear statutory authorizations. After *Alyeska* required "specific and explicit" indication of Congressional intent to award attorney fees, Congress revisited dozens of statutes to add specific and explicit language authorizing attorney fee awards, citing *Alyeska* as the reason. 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) (citing *Alyeska* as the reason for the amendment); 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) (same). In several statutes, Congress juxtaposes the words "sanctions" or "penalty" against "attorney fees," indicating that Congress knows that the naked word "sanctions" does not imply "attorney fees," which must be separately authorized. *See,*

e.g., 42 U.S.C. §§ 1320a-7a(c)(4)(G) and 1320a-8(b)(4)(G) (listing possible "sanctions" including "attorneys fees"); 15 U.S.C. §§ 77z-1(c)(3)(A) and § 78u-4(c)(3)(A) ("sanctions … in accordance with Rule 11 [includes an award] of the reasonable attorneys' fees").

The fact that Congress expressly authorized attorney fees in other provisions of the Patent Act (like 35 U.S.C. § 285), but not § 316, strongly suggests Congress did not intend to authorize them in § 316. This is because when Congress authorizes attorney fees in one section of a statute but not another, it is presumed Congress did so intentionally. *See Russello v. United States*, 464 U.S. 16, 23 (1983); *see also Baker Botts*, 576 U.S. at 129 (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").

When Congress means to empower an agency or tribunal to impose attorney fees as a sanction, Congress says so. For example, Congress empowered the International Trade Commission to "prescribe sanctions for abuse of discovery and abuse of process to the extent authorized by Rule 11 and Rule 37 of the Federal Rules of Civil

Procedure," both of which expressly list "attorney fees" as one possible sanction. 19 U.S.C. § 1337(h); Fed. R. Civ. P. 11, 37.

The contrast between § 1337 and § 316 is particularly telling. Both the ITC and the USPTO are administrative agencies who Congress has empowered to investigate the invalidity of issued patents. *See* 19 U.S.C. § 1337(a)(1)(B); 35 U.S.C. §§ 311-319. Congress also empowered both agencies to promulgate rules or regulations prescribing sanctions for "abuse of discovery" and "abuse of process." 19 U.S.C. § 1337(h); 35 U.S.C. § 316(a)(6). But Congress only expressly allowed the ITC—not the Director—to sanction such conduct "to the extent authorized by Rule 11 and Rule 37 of the Federal Rules of Civil Procedure." *Id.* Courts usually "presume differences in language like this convey differences in meaning," and that presumption is higher when the two statues "handle much the same task." *Wisconsin Central Ltd. v. U.S.*, 585 U.S. 274, 279 (2018). The similarities of these statutes and that crucial difference suggest that Congress knew how to authorize attorney fees when it wanted to and that it did not want to here.

Moreover, before enactment of the AIA, § 1337 appears to be the only statute that empowered any tribunal to levy sanctions for "abuse of

discovery" or "abuse of process." It would have been a simple matter for Congress to simply copy § 1337(h) into the AIA. Doing so would not have affected any other statutes regulating administrative agencies because there were no other such statutes to affect. And yet, Congress chose not to. This choice is strong evidence that "sanctions" in § 316 does not include the power to award attorney fees.

The legislative history of the AIA does not support the Director's position either. It was argued below that Congress "recognized the Director may "may impose sanctions in the form of monetary fines (or payments to other parties) …." Appx02830 (citing H.R. Rep. No. 110-314, at 73 (2007)). But that report related to an earlier legislative proposal in a different Congress that was never enacted. The only committee report pertaining to the AIA from the Congress that passed it—H.R. Rep. No. 112-98 (2011)—does not mention attorney fee or monetary awards of any kind in connection with § 316. H.R. Rep. No. 112-98 at 76 (2011). No one pointed to any of the Senate's legislative history below. The silence of H.R. Rep. No. 112-98 and no apparent statements regarding attorney fees from the Senate further confirms that Congress had no intention of providing the power the Director now claims to wield.

Further evidence of the lack of Congressional intent to allow for attorney fee awards in IPRs can be found from the lack of procedures and enforcement mechanisms for any such awards. When Congress intends agencies to award attorney fees, it enacts comprehensive schemes delineating eligibility, application procedures, and enforcement. For instance, the Equal Access to Justice Act (EAJA) explicitly provides for attorneys' fees in agency proceedings, specifying who qualifies, how to apply, under what circumstances fees are awarded, and how a prevailing party may seek judicial enforcement of the agency's determination. 5 U.S.C. § 504; 28 U.S.C. § 2412(d). Similarly, the Commodity Exchange Act includes provisions for fee awards and contemplates enforcement of those awards in district court. 7 U.S.C. § 18.

No such structure exists in the AIA. The AIA and its implementing regulations contain no procedures for requesting attorneys' fees, no mechanism for enforcement, and no standard for judicial review. This stark silence speaks volumes. Congress's choice to leave the USPTO unequipped with a framework to make attorney fee awards enforceable is dispositive evidence that Congress did not intend to authorize attorney fee awards in IPRs.

C. Regulations and Nonbinding Dicta Do Not Allow the Director to Bootstrap Authority Congress Never Provided

OpenSky squarely raised this as a statutory construction issue. Appx02755-58. In response, the Director relies only on the naked word "sanctions" in the statute. Appx00129-30. The Director doesn't even acknowledge that a statutory construction issue is in play, let alone respond, address any of the canons of statutory construction, or provide any other justification for disregarding the usual requirement for "specific and explicit" statutory language to displace the American Rule.

Instead, the Director relies on a USPTO regulation, 37 C.F.R. § 42.12(b)(6), and passing references in Federal Circuit decisions to justify the fee award. Appx00129-30. But a regulation cannot exceed the scope of its authorizing statute. *Ernst & Ernst v. Hochfelder*, 425 U.S. 185, 213-14 (1976); *see also Bowen v. Georgetown Univ. Hosp.*, 488 U.S. 204, 208 (1988) ("It is axiomatic that an administrative agency's power to promulgate legislative regulations is limited to the authority delegated by Congress."). Since § 316(a)(6) does not explicitly allow fee awards, no regulation can supply that missing authority.

Equally unavailing is the Director's reliance on dicta in *Voip-Pal.com*, 976 F.3d at 1323 and *Amneal Pharmaceuticals LLC v. Almirall, LLC*, 960 F.3d 1368, 1372 n.* (Fed. Cir. 2020). Neither of

these cases even purport to address whether *Congress* authorized the PTAB to award attorney's fees as a sanction.

In *Apple v. Voip-Pal.com*, the question presented was whether a PTAB sanction decision exceeded its authority under Rule 42.12(b) because the awarded sanction (allowing a new panel to preside over a petition for rehearing) was not explicitly provided for in that rule. *Id.* at 1323. The panel held that Rule 42.12(b) "does not limit the [PTAB] to the eight listed sanctions." *Id.* No attorney fee was at issue in the case. Accordingly, *Apple* never addresses whether Rule 42.12(b)(6) permits an attorney fee award in light of the absence of explicit authorization in § 316.

Amneal is equally inapt. The Director relies on dicta in a footnote acknowledging the existence of Rule 42.12 for regulating party misconduct. Appx00130 (citing 960 F.3d at 1372 n.*). However, *Amneal*'s holding was that § 285 does not permit courts to award attorney fees for IPR proceedings and related appeals. 960 F.3d at 1370-73. Further, *Amneal* noted that the presumption against awarding attorney fees applied to administrative proceedings as well as court litigation and it was unaware of any case that would support awarding fees incurred before the Board. *Id.* at 1371-72. Therefore, *Amneal*

makes no holding whether Congress authorized Rule 42.12(b)(6), and its only relevant findings to this case find no authority for the Board to award attorney fees.[6]

Further evidence that *Amneal* does not say what the Director thinks it does is a lower court decision that, in responding to an *Amneal*-based argument, cited *NantKwest*, and stated there "are no fee-shifting provisions in Chapter 31 of Title 35 [i.e., §§ 311-319]—which specifically relates to IPR proceedings. The absence of a fee-shifting provision in this chapter shows a lack of congressional intent to permit the award of attorneys' fees in IPR proceedings." *Dragon Intell. Prop., LLC v. DISH Network L.L.C.*, No. 13-cv-2066-RGA, 2021 WL 5177680 at *3 n. 5 (D. Del. Nov. 8, 2021), *aff'd on other grounds*, 101 F.4th 1366, 1372 (Fed. Cir. 2024).

The Director also points to a prior regulation, 37 C.F.R. § 1.616(a)(5) (1995), in which the USPTO authorized itself to award compensatory attorney fees in patent interference proceedings.

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[6] The Director relying on *dictum* while overlooking holding suggests a failure of "reasoned decisionmaking."

Appx02830 (citing 60 Fed. Reg. 14488). OpenSky has been unable to find any decision reviewing whether the attorney fee aspect of this prior regulation had statutory authority. And there is considerable doubt it had any because the PTO's Final Rule discussion for § 1.616 conceded "absence of express statutory authority" for attorney fee sanctions. 60 Fed. Reg. at 14495.

In fact, far from justifying the attorney fees aspect of § 42.12, the PTO's admission that prior regulation § 1.616 lacked statutory authority to award attorney fees further confirms that the attorney fee aspect of 42.12 is invalid. Neither the 1995 Final Rule for § 1.616 (60 Fed. Reg. at 14494-96) nor the Final Rule for § 42.12 (77 Fed. Reg. at 48630) address the American Rule or case law such as *Alyeska*. The PTO's failure to "consider an important aspect of the problem" renders § 42.12 arbitrary and capricious, *State Farm*, 463 U.S. at 43. This also demonstrates the PTO's failure to meet its "affirmative burden of promulgating and explaining a non-arbitrary, non-capricious rule." *Metro. Area EMS Authority v. Sec'y of Veterans Affairs*, 122 F.4th 1339, 1344 (Fed. Cir. 2024).

At bottom, the Director's reliance on one unauthorized regulation to bootstrap another is literally claiming that two wrongs make a right.

The Director's own rationale demonstrates that § 42.12 must be set aside. 5 U.S.C. § 706(2)(A) and (C).

D. The Director Has No Inherent Power to Award Attorney Fees

Next, the Director improperly attempts to borrow authority from Article III courts, which do have inherent authority to award attorney fees to police bad faith conduct. *See* Appx00129. (citing *Chambers v. NASCO, Inc.*, 501 U.S. 32, 45-46 (1991), in turn citing several other cases). The Director doesn't explain how these cases are relevant to the specific issues OpenSky challenged. None of them provide the inherent power the Director desires.

First, the Director apparently failed to appreciate the difference between Article III courts and agencies. *Chambers* is inapplicable because it only speaks to the "inherent power" that Article III "federal courts" have "to assess attorney's fees against counsel." *Chambers*, 501 U.S. at 45. *Chambers* expressly distinguishes "inherent power" sanctions from statutory (or Federal Rules) sanctions. *Id.* at 46-47. But the USPTO is not an Article III court exercising inherent judicial powers. It is an executive agency with authority limited to what Congress explicitly grants. *HTH Corp. v. NLRB,* 823 F.3d 668, 679

(D.C. Cir. 2016) (agencies are "creature[s] of statute" with "only those powers conferred … by Congress.").

Agencies lack inherent authority to impose attorney fee sanctions for bad faith conduct. *HTH*, 823 at 679 (except for three narrow and "statutorily implicit" exceptions, "it is wrong to speak of agencies as having *any* inherent authority"); *Ethicon v. Quigg*, 849 F.2d 1422, 1427 (Fed. Cir. 1988) ("The [Director] … has no inherent authority, only that which Congress gives."). To award attorney fees, agencies need express statutory authorization. *Castillo v. Metro. Life Ins. Co.*, 970 F.3d 1224, 1232 (9th Cir. 2020); *Trapp v. U.S.*, 668 F.2d 1114, 1115-16 (10th Cir. 1977) ("Agencies may not award attorney's fees without express statutory authority. … Where Congress has spoken to authorize an award of attorney's fees, it has done so in no uncertain terms."). The "inherent power" rationale of *Chambers* is, thus, inapplicable to an agency's authority to impose attorney fee sanctions. The Director must stand or fall on her claim of statutory authority, and *Chambers* offers her no support.

Third, the Director attempts to justify the fee award by a desire to "punish" OpenSky. Appx00129 (noting the fee award was "to punish OpenSky for its abusive conduct."). The Director's desire to punish a

party does not provide authority that Congress did not grant. Further, even if the Director's justification that the fee award is "intended … to punish OpenSky," Appx00129, were an exception to the American Rule—which it is not—it would still not allow an attorney fee award. This is because the USPTO's own rules only authorize the Director to award "compensatory expenses." 37 C.F.R. § 42.12(b)(6). So even if the Director or Board has some authority to issue attorney fee awards—which they do not—that authority is confined to sanctions that are "compensatory rather than punitive in nature." *Goodyear*, 581 U.S. at 108. Because the fees awarded here are admittedly punitive, not compensatory, the Director has no authority to award them.

Without statutory language conferring authority to award attorney fees, the Director cannot invoke an Article III court's inherent sanctioning power.

E. Reversal will Not Defang the Director's or the Board's Ability to Police IPRs

This Court need not worry that granting a reversal will induce future misconduct. The Director and Board will still have authority to police misconduct. 37 C.F.R. § 42.12(b) lists seven other categories of sanctions—several that the Director imposed against OpenSky—that would still be available against future parties.

F. Conclusion

In sum, the Director's award of attorney fees lacks any statutory basis. Supreme Court precedent squarely rejects attempts to infer fee-shifting authority from general terms. The general word "sanctions" in § 316 does not suffice, especially in view of the contrast between the powers granted to the ITC in § 1337, but not to the Director in § 316. Neither regulatory references, nonbinding dicta, nor the Director's punishment rationale can grant authority Congress withheld. Nor does the Director have inherent authority to award attorney fees. Absent explicit statutory language and a procedural framework to enforce attorney fee awards, like in § 1337, the Director's order represents an impermissible extension of agency power. It must be reversed.

III. Clash with the *Noerr-Pennington* Doctrine Renders the Director's Sanctions "Contrary to Constitutional Right"

The sanctions are "contrary to constitutional right or immunity," § 5 U.S.C. 706(2)(B), because they penalize conduct protected under the First Amendment ("Congress shall make no law … abridging ... the right … to petition the Government for a redress of grievances") as implemented by the *Noerr-Pennington* doctrine. *Noerr-Pennington* shields petitioning activity—including IPR filings, settlement negotiations, and related litigation conduct—from liability unless it

qualifies as "sham litigation." This exception was nullified at least when the Director agreed that OpenSky's petition was "meritorious," (Appx00029-30; Appx00119-120). The Director's ability to impose sanctions was, thus, cabined by *Noerr-Pennington*.

The Director proposed two remarkably different theories for award of attorney fees. Initially, Paper 102 found abuse of process solely based on OpenSky's "motivation" in filing the IPR petition and sending settlement communications purportedly reflecting a willingness to "undermine and/or not vigorously pursue this matter" in exchange for money rather than primarily to challenge patent validity (Appx00040-41, 66-81). OpenSky showed that the Director's decision in Paper 102 failed on *Noerr-Pennington* grounds (Appx02765-67). In Paper 127, the Director responded by shifting to an amorphous "totality of conduct" theory,[7] throwing in alleged discovery misconduct and other post-filing

[7] As explained at page 11, Paper 102 did not identify or give notice of any intent to issue an award of attorney's fees for the alleged discovery misconduct, instead issuing evidentiary sanctions as "the" sanction for that alleged misconduct. Appx00052-65. Cf. *Patent Quality Assurance, LLC v. VLSI Technology LLC*, IPR2021-01229, Paper 131 at 43 (Aug. 3, 2023).

activities "throughout the proceeding" (Appx00128-33; Appx00137-38). Neither of the Director's theories addresses *Noerr-Pennington* immunity for meritorious filings and subsequent litigation-adjacent conduct.

This Court should vacate the attorney fee sanctions and reaffirm that protected petitioning activity cannot justify punitive agency action.

A. OpenSky's Conduct Is Protected by the *Noerr-Pennington* Doctrine

The right to petition the government is one of the most precious liberties in the Bill of Rights. For this reason, the Supreme Court has found that *Noerr-Pennington* immunity shields "effort[s] to influence public officials regardless of intent or purpose." *BE&K Construction Co. v. NLRB*, 536 U.S. 516, 525 (2002) (quoting *Mine Workers v. Pennington*, 381 U.S. 657, 670 (1965)). The doctrine originated in antitrust law, but its reach has been extended to other areas of law, and to agencies. For example, the NLRB may not sanction an employer for a retaliatory lawsuit against a union, if that lawsuit was objectively reasonable, no matter the motivation or intent. *BE&K*, 536 U.S. at 535-37. *Noerr-Pennington* applies to immunize claims of abuse of process in the Patent Office. *Abbott Laboratories v. Brennan*, 952 F.2d 1346, 1356-57 (1991). Courts routinely grant *Noerr-Pennington* immunity to parties that initiate suit solely for extraction of money, as long as the suit is

objectively reasonable. *B&G Foods N. Am., Inc. v. Embry*, 29 F.4th 527, 534, 539 (9th Cir. 2022) (*Noerr-Pennington* immunity protects a case brought for "the wrongful subjective purpose of extorting money from businesses" unless sham exception applies); *Content Extraction and Transmission LLC v. Wells Fargo Bank, Nat. Ass'n*, 776 F.3d 1343, 1350 (Fed. Cir. 2014) (non-practicing entity suit was not objectively baseless); *Intellectual Ventures I LLC v. Capital One Financial Corp.*, 280 F.Supp.3d 691, 714-15 (D. Md. 2017). A narrow "sham exception" is limited to a party whose filing is "objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits" regardless of the intent of the filer. *Prof'l Real Estate Investors, Inc. v. Columbia Pictures Indus.*, 508 U.S. 49, 60-61 (1993).

OpenSky's right to file a meritorious IPR petition is firmly grounded in this protection. Section 311(a) of the America Invents Act (AIA) explicitly provides that "a person who is not the patent owner" may file an IPR petition, reflecting Congress's intent to facilitate broad access to this patent validity mechanism. The filing of an IPR petition, therefore, constitutes protected petitioning activity under the First Amendment and *Noerr-Pennington*. OpenSky's Petition is not a sham—

it has been found meritorious five separate times. Appx01243-44; Appx00029-30; Appx00100; Appx00119-120; Appx00205-06.

After OpenSky pointed out the *Noerr-Pennington* flaw in the Director's sanctions (Appx02765-67), the Director pivoted to a new theory, in which the Director extends the scope of conduct beyond that set forth in Paper 102 to include the "totality of OpenSky's conduct," including OpenSky's petition, intent, copying Intel's petition, filing an IPR without fear of infringement, the settlement offer, and discovery misconduct (for which the Director still gave no opportunity to cure). Appx00133-36.[8]

But the Director's salvage attempt can't evade *Noerr-Pennington*. The doctrine provides "breathing space" around exercise of the right to petition. *BE&K*, 536 U.S. at 531. This "breathing space" extends to litigation-adjacent and conduct incidental to litigation unless the litigation itself is a sham. *Sosa v. DIRECTV, Inc.*, 437 F.3d 923, 934 (9th Cir. 2006). "Incidental" conduct includes settlement

[8] The Directors' failure to give notice of the pivot, and failure to give opportunity to be heard, is discussed below at § V.E *infra* starting at page 67.

communications as long as the underlying litigation is not a sham. *Industrial Models, Inc. v. SNF, Inc.*, 716 Fed.Appx. 949, 957 (Fed. Cir. 2017) ("routine … offers to settle" are "attendant upon" litigation, and therefore within *Noerr-Pennington*, even when the offer is "invitation to collude"); *A.D. Bedell Wholesale Co. v. Philip Morris Inc.*, 263 F.3d 239, 253 (3d Cir. 2001); *Sosa*, 437 F.3d at 935-37 ("*Noerr-Pennington* immunity applies to claims based on conduct incidental to litigation … unless the litigation itself is a sham"—settlement demands are "incidental" to litigation and therefore within *Noerr-Pennington* immunity). The Director has never asserted that OpenSky's petition is a sham, nor that the settlement was not "incidental" and likewise immune, or made any other relevant showing.

B. The Director's Attempts to Explain Away *Noerr-Pennington* are Faulty

The Director never responds in any meaningful sense to *Noerr-Pennington* immunity. The word "sham" appears *nowhere* in Paper 127. Appx00126-43. Nor does Paper 127 suggest the petition was "objectively baseless." Appx00133. The Director directly mutinies against the basic premise of *Noerr-Pennington*: "OpenSky's litigation misconduct cannot be excused simply because the Petition itself … was meritorious." Appx00133. Instead, Paper 127 goes off on a Gish gallop of

irrelevancies and previously unknown exceptions. Appx00133-36. None of them hold water.

In her *Noerr-Pennington* discussion, the only facts identified by the Director are that "primary purpose of extorting money, while being willing to forego or sabotage the adversarial process," "motive," harm to VLSI, and "failure to comply with Mandated Discovery" Appx00135-36. None of these have any relevance to whether the litigation was "sham" or not.

Paper 127 mischaracterizes *Noerr-Pennington* as a "blanket immunity." Appx00133. OpenSky made no such claim; this is Director hyperbole. All OpenSky argued is that *Noerr-Pennington* immunizes *non-sham* petitioning activity and activity incidental thereto—and the Director offers no basis to disagree.

Next, the Director appeals to "congressional intent[ ] that undergirds the [AIA] the integrity of the patent system." Appx00133-34. The Director misunderstands the foundations of American Law. *Noerr-Pennnigton* is grounded in the First Amendment right to petition. "Congressional intent" must confirm to constitutional boundaries, not the other way around. For example, in *BE&K*, the Court adopted a

statutory construction that avoided the constitutional problem. 536 U.S. at 535-36.

Paper 127 makes no showing that the incidental conduct at issue—the settlement offer and discovery nonproduction—were exceptions to the "breathing space" principle. "Breathing space" applies to all conduct incidental to objectively reasonable litigation. *BE&K*, 536 U.S. at 531; *Sosa*, 437 at 934-35. The right to present "offers of settlement" is guaranteed by statute, 5 U.S.C. § 554(c)(1), and within the "breathing space" and "incidental" conduct immunized by *Noerr-Pennington*. *Sosa*, 437 F.3d at 935-37; *Kearney v. Foley & Lardner, LLP*, 590 F.3d 638, 646 (9th Cir. 2009). The Director never engages with the issue sufficiently to disagree.[9]

Paper 127 cites *BE&K Construction*, 536 U.S. at 537, Appx00133-34, as allowing sanctions for litigation misconduct in an otherwise meritorious suit:

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[9] The pivot in paper 127 is the first time that discovery misconduct is in the mix for attorney fees, rather than the discovery sanctions of paper 102. Appx00062-65. It cannot be included for reasons discussed in § V, *infra*.

> Case law further supports imposing sanctions for litigation misconduct, despite a meritorious suit. *See BE&K Construction*, 536 U.S. at 537 ("[N]othing in our holding today should be read to question the validity of common litigation sanctions imposed by courts themselves—such as those authorized under Rule 11 of the Federal Rules of Civil Procedure."); *see also* 37 C.F.R. § 42.11(c) (Board counterpart to Rule 11).

Appx00133-34. This argument, too, is off the mark.

First, the portion of *BE&K Construction* cited by the Director is pure *dictum*: as was Justice O'Connor's habit, *BE&K* ends with a paragraph explaining what the decision does *not* hold, 536 U.S. 536-37, and that's all that Paper 127 cited. The *dictum* distracts the Director from the holding of *BE&K*: a lawsuit brought with bad intent—in *BE&K*, retaliation for union organizing—and its "breathing space" are still immunized, if objectively reasonable. 536 U.S. at 532.

Second, the sentence cited by the Director relates to district court sanctions under Fed. R. Civ. P. 11. 536 U.S. at 537. That has no relevance to an IPR proceeding: the Director is an agency official, not an Article III court. The Director lacks the inherent authority that undergirds Rule 11. And she did, Rule 11 has various procedural prerequisites before sanctions may issue, prerequisites that the Director did not observe.

The Director's invocation of Rule 42.11(c) is especially faulty. First, the Director did not award fees under this provision, so it is simply irrelevant. Moreover, by its own terms, this Rule applies only to "an attorney, registered practitioner, or unrepresented party." This rule cannot authorize sanctions of any kind against a represented party like OpenSky. And of course, a regulation cannot carve a hole in the constitution.

IV. The Sanction Award Conflicts with Supreme Court Precedent Governing Non-Punitive Fees

A. The Director Applied the Wrong Standard

American law recognizes two different kinds of fee awards. *Blixseth v. Yellowstone Mountain Club LLC*, 854 F.3d 626, 629 (9th Cir. 2017). One class includes "whole case" fee-shifting awards, such as patent law's "exceptional case" statute (35 U.S.C. § 285), the Equal Access to Justice Act (5 U.S.C. § 504 and 28 U.S.C. § 2412), and various environmental and civil rights statutes. The other class includes sanctions for misconduct, such as Rule 11, vexatious litigation under 28 U.S.C. § 1927 and other statutes and regulations providing for compensatory attorney fees. The two are subject to different standards. *Blixseth*, 854 F.3d at 629-630.

For "whole case" awards, there's no need to analyze which costs arise from which actions.

In contrast, for misconduct sanctions the tribunal must show "solely," "but for" causation between specific costs and specific misconduct, "asses[ing] and allocate[ing] specific litigation expenses." *Goodyear*, 581 U.S. at 108-09, 113. Section 42.12 sanctions are not fee shifting sanctions, but are explicitly limited to "compensatory expenses," 37 C.F.R. § 42.12(b)(6) ("providing for compensatory expenses"), and as such must follow this rule. Thus, the tribunal "must determine which fees were incurred because of, and solely because of, the misconduct at issue." *Id* at 113. Further, an agency is obligated to "cogently explain" a "rational connection between the facts found and the choice made." *State Farm*, 463 U.S. at 43, 48. This is necessary to assure that the sanctions redress only losses sustained solely because of the misbehavior, so that the resultant sanctions do not "cross[ ] the boundary from compensation to punishment." *Goodyear*, 581 U.S. at 108. When costs result from a mix of sanctionable conduct and non-sanctionable conduct, those costs may not be included in a sanctions award. *Goodyear*, 581 U.S. at 109 (citing *Fox v. Vice*, 563 U.S. 826, 836 (2011)). The causation must be "sole," "but for." *Id.* at 110. While the

conduct-cost-causation showings need not achieve "auditing perfection," the "but for" causation analysis must be set forth and explained. The Director's "rough justice" (Appx03346) still requires avoiding the *injustice* of an unexplained decision or "punitive" sanctions. *Id.* at 108.

Under political pressure demanding that the Director punish OpenSky, the Director overlooks the difference, and applies the wrong standard. Because of that wrong standard, the Director has not made—and cannot make—the underlying factual findings for the fees awarded.

OpenSky explained at least twice that *Goodyear* precluded monetary sanctions. Appx02767-70; Appx02987-03001 (explaining lack of causation). The Director specifically declined to make the necessary conduct-cost-causation findings. Instead, she pounced on *Monolithic Power Sys. Inc. v. O2 Micro Int'l Ltd.*, 726 F.3d 1359 (Fed. Cir. 2013), to support a conclusion of "misconduct throughout the proceeding" (Appx00137-38) and refused to address specifics when asked (Appx00224). The Director's failure to engage is "abuse of discretion" or "contrary to law" in several respects.

First, the Director squarely concedes that her sanctions are intended "to punish OpenSky." Appx00129. The Director's later

decisions never backpedal from that "intent." With that, the Director's authority to impose "compensatory" sanctions evaporates.

Second, *Monolithic* is a § 285 "exceptional case" whole-case fee-shifting case. 726 F.3d at 1361. But this is a sanctions case, so *Goodyear* applies, not *Monolithic*. Further, *Monolithic* was decided by this court in 2013, before the Supreme Court's *Goodyear* decision clarified procedural requirements and substantive limitations on attorney fee sanctions in 2017. The Director's reliance on *Monolithic* doesn't excuse her failure to address the conduct-cost-causation showings of *Goodyear* in 2023.

Third, in *Goodyear*, the misconduct was failure to disclose evidence establishing Goodyear's liability. Goodyear withheld that evidence for *years*, until it came to light in a different litigation. 581 U.S. at 104-05. The district court surmised that the litigation would have ended years earlier, and "disclaimed the usual need to find a causal link between misconduct and fees when the sanctioned party's behavior was bad enough … when it rose to a truly egregious level." *Goodyear*, 581 U.S. at 112 (cleaned up). In this case, the Director specifically *declines* to offer *any* explanation, not even plausible surmise, that VLSI's attorney fees were the "but for" consequence of any

specifically identified misconduct. Appx00137-38. The Director's "misconduct throughout the proceeding" rationale is exactly one of the errors corrected in *Goodyear*.

B. For Each Time Bucket, the Director Failed to "Cogently Explain" the Required Causal Connection

The Director bucketized the case into six "time buckets" and awarded fees for five: "Precedential Opinion Panel ('POP') Request for Review" (Appx00227-28), "Settlement Negotiations" (Appx00228-29), "Ethical Research" (Appx00229), "Director Review Process" (Appx00230-31), and "Attorney Fees Briefing" (Appx00232).

First, the Director's buckets are defined by time, not conduct-cost-causation. This "time-bucket" approach is one of the exact errors the Supreme Court reversed in *Goodyear*. *Goodyear* expressly rejects "temporal limitations" as "wide of the mark." 581 U.S. at 113. *When* the fees were incurred is neither here nor there. The required bucketizing and showing are "but for" causation, not time. *Id*.

Second, none of the fees incurred during the Director's review are compensable because fees incurred in litigating a fee motion, appellate-style review, or similar ancillary proceedings do not flow but for from prior misconduct but instead arise from that discretionary review itself. *Cooter & Gell*, 496 U.S. at 406-07; *Blixseth*, 854 F.3d at 630-31 (denying

sanctions-based fees for preparing a fee motion). This Director Review was *de facto* an appellate proceeding: the Director repeatedly uses quintessentially appellate terminology. Appx01449 (Director Review instituted *sua sponte* to "review … the Board's Institution Decision"); Appx00039 ("review"); Appx00041-42 ("remand" for "compelling, meritorious" review); Appx00115, 119-20 ("affirming" a Board "Decision on Remand"); Appx00136 ("Director review regarding whether to reverse the initial institution decision"). These are classic appellate terms. Because the Director Review here was effectively an "appeal" of the Board's institution decision, the chain of causation is broken for any fees incurred. *Cooter & Gell*, 496 U.S. at 406-07 (appeal of sanction not caused by the sanctioned conduct). This means the "Director Review Process" bucket of fees is not compensable. Similarly, the "Attorney Fees Briefing" bucket (Appx00232) is not compensable because those fees are for preparing an ancillary fee motion, which breaks causation. *See Blixseth*, 854 F.3d at 630-31.

Third, for four of the five buckets, the Director coined new, hitherto-unknown substitutes for conduct-cost-causation: "relevant to Director Review" (Appx00228), "relevant to OpenSky's abuse of process" (Appx00229), "unusual and serious" (Appx00229), "numerous novel and

complex issues" (Appx00231). None of these tests have anything to do with conduct-cost-causation; they're all "wide of the mark." *Goodyear*, 581 U.S. at 113.

Fourth, for *none* of the five buckets does the Director identify specific misconduct, let alone explain how costs were the "but for" consequence of that conduct. For none of the five buckets does the Director explain how she *avoided* rolling in costs from OpenSky's meritorious initial filing, and similar costs that would have arisen "even had [OpenSky] behaved immaculately in every respect." *Goodyear*, 581 U.S. at 114. The initial petition was not "misconduct," as even the Director concedes (Appx00134, "I am not sanctioning OpenSky based on whether it filed a meritorious Petition"). Yet the Director's "misconduct throughout the proceedings" rationale (Appx00128-38) and the buckets she awarded (Appx00227-32) assume the misconduct started with the initial filing.

The failure to identify conduct-cost-causation is even more stark in the Director's handling of those acts labeled "misconduct." For example, the Director points to the February 23 "settlement negotiations" email, the alleged copying of Intel's petition, minimal effort in preparing the IPR, not engaging the expert before filing, and

objecting and refusing to provide a privilege log. Appx00066-81. But those aren't the buckets the Director uses, and nowhere does the Director make a conduct-cost-causation showing connecting specific conduct as the "sole," "but for" cause of any incremental fees. Even if each of these acts were "bad" in some abstract sense (which the Director concedes, by and large, they are not, e.g., Appx00067-80), *Goodyear* demands that the Director *explain* a link between the supposed wrongdoing and incremental attorney work that would not otherwise have been performed. It was the Director's burden to "determine which fees were incurred because of, and solely because of, the misconduct at issue" and "cogently explain" the causal connection. *Goodyear*, 581 U.S. at 113; *State Farm*, 463 U.S. at 43, 48. But the Director offers no explanation beyond "I am persuaded… to include the time," Appx00232.

Both VLSI's evidence and the Director's decisions only address the existence of *some* harm and the lodestar calculation, and ignore any *Goodyear* showing of conduct-cost-causation to connect *each* cost to specific conduct. Appx02823-39; Appx00133-38; Appx11525-608; Appx2940-73; Appx00227-32. The Director was not required to achieve "auditing perfection," but she was required to give sufficient explanation to demonstrate awareness of the legal requirement for

conduct-cost-causation. *Goodyear*, 581 U.S. at 110. Failure to "cogently explain" the necessary connections was arbitrary and capricious. *State Farm*, 463 U.S. at 43, 48. Further, because VLSI offered no relevant evidence on causation, the issue is waived and cannot be addressed on remand. *Goodyear*, 581 U.S. at 114-15.

C. Conclusion

The Director's failure to address the relevant legal issues was arbitrary and capricious and abuse of discretion that warrants reversal. The record is closed to any do-over on remand.

V. The Director's Abuse-of-Process Determination Trampled the APA and Basic Fairness

A. Introduction and Legal Standards

The Director's sanctions order flouts bedrock principles of administrative law and due process by depriving OpenSky of fair notice, arbitrarily prohibiting key evidence, and shifting rationales midstream. The APA requires agencies to provide adequate notice of the legal and factual bases for proposed actions, 5 U.S.C. § 554(b)(3), to allow parties the entitlement to present evidence of their choice, to base sanctions decisions on "reliable, probative, and substantial evidence," 5 U.S.C. § 556(d), and to avoid "arbitrary and capricious" decision-making. *See*

State Farm, 463 U.S. at 42-43. Likewise, constitutional due process demands a meaningful opportunity to present relevant evidence and respond to allegations. *Brock v. Roadway Exp. Inc.*, 481 U.S. 252, 264 (1987); *Belden Inc. v. Berk-Tek LLC*, 805 F.3d 1064, 1080 (Fed. Cir. 2015) ("The indispensable ingredients of due process are notice and an opportunity to be heard by a disinterested decision-maker," and reminding of the obligations of §§ 554 and 556).

Here, the Director prevented OpenSky from using declaratory evidence, imposed discovery obligations never contemplated by the IPR regulations, and otherwise denied OpenSky an opportunity to defend itself. These actions contravene the APA and the PTO's own rules, requiring reversal. As explained below, each step of the Director's proceeding—and each negative inference she derived—rested on *ultra vires* demands and inadequate evidence, culminating in a sanctions order that is procedurally and substantively unsupportable. And because the sanctions were ultimately based on "the totality" of OpenSky's conduct, each of these errors renders the sanctions invalid.

B. Order No. 47 Was Ultra Vires

1. The Director Lacked Authority to Propound Discovery

In Paper 47, the Director ordered that OpenSky respond to six interrogatories and produce seven categories of documents (Appx00031-34)—despite no statutory or regulatory basis for such discovery. The IPR statutes and regulations sharply restrict discovery, emphasizing it must be obtained by agreement, by motion, or through a party's fact assertions, not at the Director's *sua sponte* order. 35 U.S.C. § 316(a)(5); 37 C.F.R. §§ 42.51-42.53. The interrogatories were especially improper because the IPR regulations authorize only document requests, depositions, and declarations—not interrogatories. 37 C.F.R. §§ 42.51-42.53. The Director had no authority to impose this discovery. *See DynCorp Int'l, LLC v. United States*, 10 F.4th 1300, 1311 (Fed. Cir. 2021) ("an agency has no discretion to disregard binding regulations"). Interpretations in the Federal Register bind against agency personnel until the agency formally adopts new interpretations. *Yale-New Haven Hosp. v. Leavitt*, 470 F.3d 71, 80 (2d Cir. 2006) ("An interpretative rule binds an agency's employees," cleaned up); 5 U.S.C. § 552(a)(1)(D).

The Director invoked 35 U.S.C. § 316(a)(5) and 37 C.F.R. § 42.5(a) to justify her order, Appx00053, but neither supports the Director's

discovery order. Section 316(a)(5) is not self-executing—the authority it confers is bounded by the regulations the Director prescribes. Section 316(a)(5) obligates the Director to prescribe regulations, not ignore them. *Fox Television*, 556 U.S. at 515 ("An agency may not … simply disregard rules that are still on the books."). And 37 C.F.R. § 42.5(a), which allows the Board to "determine a proper course of conduct" in uncovered situations, gives the PTAB authority to regulate *party* conduct, but not to jump into the fight as a party by injecting new issues and demanding discovery. Similarly, § 42.5(a) cannot be read to negate the regulatory limits on discovery that the PTO negotiated during notice-and-comment. An agency that wishes to reinterpret its rules must do so via the same formalities used to adopt them, not by targeting a single party with *ad hoc* procedures. *See Exelon Generation Co. v. Local 15, IBEW*, 676 F.3d 566, 577-78 (7th Cir. 2012) (to reverse a prior position the agency must exercise at least the level of procedural formality used to adopt it initially). OpenSky objected to this *ultra vires* discovery (Appx01578-85) (while still producing over 240 MB of documents), but the Director dismissed those objections. Appx00053-55, Appx00057.

Because the Director had no authority to mandate discovery, she likewise had no authority to sanction OpenSky for alleged noncompliance.

2. The Director's Restrictions on How OpenSky Could Respond to the Interrogatories were "Short of Statutory Right" and "Without Observance of Procedure"

The interrogatories demanded information regarding OpenSky's formation, motives, and business activities. Appx00031-33. OpenSky explained that as a single-member LLC, "internal documents" and "internal communications" simply did not exist in many instances. Appx02172-73. Yet the Director simultaneously barred "[n]ew declaratory evidence" Appx00034, leaving OpenSky with no practical means of responding.

This one-two punch—prohibiting declaratory evidence while demanding documentary proof—deprived OpenSky of a fair opportunity to respond. The APA guarantees an "entitlement" to present oral or documentary evidence as the party chooses. 5 U.S.C. § 556(d). This is particularly true for questions related to intent and motivations that inherently lack pre-existing documentation. But, without ever finding that such documents actually existed, the Director found OpenSky's

interrogatory responses insufficient for failing to cite sufficient documentary evidence all the same. Appx00058-62.

Not only was the bar on declaratory evidence *ultra vires*, the subsequent sanctions are precisely the type of unfair and arbitrary enforcement condemned by due process: "Obviously sanctions cannot be based on the failure to produce a document that did not exist." *Waymark Corp. v. Porta Sys. Corp.*, 334 F.3d 1358, 1364-65 (Fed. Cir. 2003). The Director contends that some non-produced documents exist (Appx00132) (but without identifying specifics) but nowhere considers whether unproduced documents existed to support *each* negative inference. By insisting on documents that did not exist while forbidding the only feasible alternative (affidavits or declarations), the Director trapped OpenSky into noncompliance, resulting in a procedurally unfair and arbitrary sanction.

3. The Director Lacked Authority to Demand a Privilege Log

The Director lacked authority to demand a privilege log to be used to identify documents for *in camera* inspection. Appx00033-34.

In promulgating the IPR regulations, the PTO promised that it would not require discovery of "anything … protected by legally recognized privileges." 77 Fed. Reg. at 48639. The PTO is bound by

interpretations of its own regulations that it states in its Federal Register notices. *Yale-New Haven Hosp.*, 470 F.3d at 80; 5 U.S.C. § 552(a)(1)(D). Privileged documents are not discoverable, and the Director can't change the rules on the fly.

The Director's explicit purpose of the privilege log was to identify documents for *in camera* review. Appx00034. OpenSky reminded the Director of case law holding that disclosure of privileged documents to an agency waives privilege. Appx01584-85. Logging protected materials for the sole purpose of potential *in camera* review would, thus, be superfluous. Appx01585. Paper 102 did not address that case law, non-authority to require a privilege waiver, or the PTO's assurance that it would not require discovery of privileged documents. Appx00055. Instead, Paper 102 ruled that not providing a log was sanctionable conduct, with no opportunity to cure. Appx00056-57.

C. The Director Ignored Key Evidence and Relied on Contradictory Adverse Inferences

Sanctions may only issue when "supported by and in accordance with the reliable, probative, and substantial evidence." 5 U.S.C. § 556(d). "Substantial evidence" review requires that an agency decision must take into account whatever evidence fairly detracts from the agency's conclusion. *Universal Camera Corp. v. NLRB*, 340 U.S. 474,

488 (1951). An agency must explain its view of contrary evidence. *Princeton Vanguard, LLC v. Frito-Lay North America, Inc.*, 786 F.3d 960, 970 (Fed. Cir. 2015).

The Director's findings of abuse of process relied heavily on adverse inferences, which served as the foundation for her sanctions and ultimate conclusions. Appx00066-81. However, these findings fail the agency's substantial evidence test because the Director failed to consider and explain significant contrary evidence provided by OpenSky. By disregarding this evidence, the Director violated the APA's requirement that agency decisions be supported by "reliable, probative, and substantial evidence" (5 U.S.C. § 556(d)) and failed to meet the agency's obligation to provide a reasoned explanation for its findings. This omission renders the Director's abuse of process determination unsound.

For example, the Director explained that the "proper sanction is to hold *disputed* facts as established against OpenSky," Appx00064 (emphasis added), but went far beyond that. Paper 102 drew an adverse inference that OpenSky initiated settlement negotiations, Appx00067. But VLSI never disputed that it had initiated settlement discussions, and this fact was confirmed in evidence from both parties. Evidence

included an email where OpenSky stated that it had "considered" and "declined" VLSI's "suggestion" to make a settlement offer, as well as voicemails from VLSI proposing settlement discussions. Appx06131-32; Appx01704; Appx02162-63. VLSI's own brief stated "VLSI proposed settling OpenSky's IPR for up to $750,000—$250,000 upon agreement to terminate and $500,000 if termination occurred without joinder." Appx01771. This evidence established that OpenSky's settlement-related actions were reactive, not instigative, and directly contradicted the Director's adverse inference that OpenSky initiated settlement discussions for improper purposes Appx00066-67. The Director does not cite any factual dispute on this issue or address this evidence at all, violating the APA's requirement to consider and explain the whole record, including significant contrary evidence before reaching a conclusion. 5 U.S.C. § 556(d); *Princeton Vanguard*, 786 F.3d at 970. The Director repeatedly relied on this "fact" to establish whether OpenSky had abused the process. Appx00067; Appx00077.

Further, the Director's adverse inferences are not the "substantial evidence" required by § 556(d), unless (a) the 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. Sep. 3, 2021), (b) the tribunal explains

some nexus between the inference and the lost evidence, *Gates Rubber Co. v. Bando Chem. Indus., Ltd.*, 167 F.R.D. 90, 105 (D. Colo. 1996) (c) the inference is supported by some corroborating or circumstantial evidence, *Epic Systems Corp. v. Tata Consultancy Services Ltd.*, 980 F.3d 1117, 1136 (7th Cir. 2020), and (d) the tribunal explains its reasons for rejecting the party's alternative explanations. *Singh v Bd. of Immigration Appeals*,
253 Fed. Appx. 91, 92-93 (2d Cir. 2007). The Director never explained how her adverse inferences—supported by no more than non-production under objection—were consistent with law.

In maintaining her adverse inferences, the Director responds to only one of these defects—that *some* documents were produced by VLSI. Even here, the Director makes no attempt to show missing documents for *all* adverse inferences, gives none of the required explanations for nexus or for rejecting OpenSky's alternatives, cites no corroborating evidence, and gives no opportunity to cure. Appx00132-33. Adverse inferences may only "plug evidentiary holes," not "hold all the water." *Epic*, 980 F.3d at 1136. Throughout, Papers 102 and 127 are notably thin on cites to record evidence; almost the entire case is built on adverse inferences.

By failing to consider and explain significant contrary evidence—including evidence that directly rebutted key adverse inferences—the Director distorted the record and failed to meet the substantial evidence standard. These errors infected her findings of abuse of process and render her conclusions unsupported. This selective and improper approach violates the APA's mandate to consider the "whole record" (5 U.S.C. § 556(d)) and renders her findings arbitrary and capricious.

D. The Director's Abuse of Process Finding Was Not in Accordance with Law, and Arbitrary and Capricious

In Paper 102, the Director writes "The essence of an abuse of process claim is that proceedings are used for a purpose not intended by the law." Appx00040. However, like any other tort, abuse of process has multiple elements. Paper 102 ignored at least two elements of that tort: (1) the tort requires formal court "process" (i.e., an order by which the tribunal asserts jurisdiction or compels action), and (2) an improper, collateral purpose.

The Restatement (Third) of Torts § 26, comment (b), confirms that "process" has a strict legal meaning—namely, "instruments by which courts assert their jurisdiction and command others." *Id.* Abuse of process therefore arises only if a tribunal issues an order that was wrongfully procured; mere misconduct by a party is insufficient. *Id.*

Indeed, comment (b) admonishes against the naïve layman's meaning of "process." Yet in Papers 102 and 127, the Director invoked exactly that lay understanding by claiming OpenSky "abused the IPR process." Appx00052–54, Appx00066–81; Appx00127; Appx00135. Nowhere did the Director notify the parties that this informal definition would override the formal meaning set out in the Restatement, or show how OpenSky's conduct met the threshold requirement that a court (or here, a tribunal) must have actually issued process that was misused.

Perhaps the Director confuses abuse of process with the related tort of Wrongful Use of Civil Proceedings, from the Restatement §§ 24 and 25. But that tort only applies if a case-initiating paper is "without probable cause," §§ 24, 25. The Director conceded that point multiple times.

Second, as the Director notes, an abuse of process claim requires some ulterior or collateral purpose. Appx00040 ("The essence of an abuse of process claim is that proceedings are used for a purpose not intended by the law"). But Paper 102 only finds that OpenSky's purpose was to obtain money from VLSI, Intel, or both. The Director fails to meet her burden to explain how such a purpose shows an ulterior or collateral purpose. Nor could she. Most if not all commercial litigation is

filed in pursuit of economic gain, and this is certainly true of patent proceedings. PTAB precedent recognizes that it is *not* an abuse of process to file an IPR for such a reason: "[p]rofit is at the heart of … nearly every *inter partes* review" and "an economic motive for challenging a patent claim does not itself raise abuse of process issues." *Coalition for Affordable Drugs VI, LLC v. Celgene Corp.*, IPR2015-01092, Paper 19 at 2 (PTAB Sep. 25, 2015). Courts have routinely rejected the idea that pursuing a monetary settlement for the asserted claim meets the "collateral purpose" requirement. *Reis v. Walker*, 491 F.3d 868, 870 (8th Cir. 2007) ("commencing a lawsuit or adding a claim to gain leverage for a settlement, or in the expectation of a settlement, is not an abuse of that process.").

Even the cases the Director cites demonstrates that there was no abuse of process. In *Woods Servs., Inc. v. Disability Advocs., Inc.*, 342 F. Supp. 3d 592 (E.D. Pa. 2018), the defendant alleged that plaintiff's settlement offer was an abuse of process because it would have caused violations of federal law and interfered with the attorney client relationships. *Id.* at 606. The court dismissed the claim, holding that "the fact that Plaintiff made demands that Defendant deemed objectionable and contrary to its federal mandate does not rise to the

level of an abuse of process." *Id.* Instead, the court noted that "Plaintiff's primary purpose in making those demands was to present an opening offer to settle this case—the very purpose for which the settlement process was designed." *Id.* Thus, even if the *Woods* plaintiff had "bad intentions," the settlement negotiation was carried out to its authorized conclusion—that is "Defendant rejected Plaintiff's settlement letter and the contested demands are no longer at issue." *Id.* The Director never explains why a rejected settlement offer is "no longer at issue" in the case she cites, but abuse of process in this case.

The Director also cites *BTG Int'l Inc. v. Bioactive Labs.*, No. 15-4885, 2016 WL 3519712 (E.D. Pa. June 28, 2016), implying that seeking monetary compensation in an IPR may be "abuse of process." Appx00069. But that case, too, supports OpenSky. There, the alleged abuse arose because the petitioner used the IPR for the collateral purpose of extracting leverage over an *entirely unrelated* defamation dispute—demanding multi-million-dollar compensation and public concessions for alleged libel. *Id.* at *3-*4. That was the "classic example" of exploiting a legal tool (an allegedly frivolous IPR) to coerce settlement of a completely different, pre-existing claim.

By contrast, all settlement discussions here related to the patent itself, and the record shows that OpenSky's petition had sufficient merit to withstand any contention of frivolousness. A request for financial compensation to dismiss a legitimate patent challenge is not an unrelated or extortionate act; it is a typical feature of patent litigation, as both courts and the PTAB acknowledge. See *Affordable Drugs*, IPR2015-01092, Paper 19 at 2.

The Director's failure to explain why OpenSky's economic rationale is different from all others, and her unexplained change in policy relative to *Affordable Drugs*, are contrary to law and arbitrary and capricious. *Fox Television*, 556 U.S. at 515-16; *State Farm*, 463 U.S. at 43.

E. The Director's Shifting Rationale for Sanctions Violates the APA's Notice and Reasoned Decision-Making Requirements

The Director's sanction order violates the APA because it shifts the grounds for sanctions midstream, denying OpenSky fair notice and depriving it of a meaningful opportunity to defend itself.

Paper 102 framed the abuse of process finding around OpenSky's alleged intent in filing the IPR petition and engaging in settlement discussions. Appx00066-81. Paper 102 specifically identified two actions

as sanctionable: the filing of the petition and the February 23, 2022, settlement email. *Id.* Paper 102 did not rely on alleged discovery misconduct or post-filing conduct as a basis for abuse of process or monetary sanctions. *Id.*

Even more striking, Paper 102 is the first time the Director gave notice of the specific conduct of concern, the first notice of the specific legal theory to be applied, and simultaneously a "determination" that abuse of process had occurred. Appx00065-81. Adequate notice requires "attention being called to" specific facts. 5 U.S.C. § 554(b)(3); *Rovalma, S.A. v. Bohler-Edelstahl GmbH & Co*, 856 F.3d 1019, 1029 (Fed. Cir. 2017); *Belden*, 805 F.3d at 1080 ("The indispensable ingredients of due process are notice and an opportunity to be heard"). The Director's papers 41 and 47 identified no "matters of fact and law asserted," 5 U.S.C. § 554(b)(3), other than the naked words "abuse of process," and gave no mention of the specific facts that later emerge as basis for the "determination." Appx01449-50, Appx00030-32. The Director never gave opportunity to be heard on the specific issue "determined" in paper 102.

Then, in Paper 127, after OpenSky raised *Noerr-Pennington* immunity, the Director changed course again. Instead of relying solely

on OpenSky's intent behind filing the petition and settlement discussions, Paper 127 changed the rationale to include alleged discovery misconduct and a broad "totality of conduct" standard. Appx00135. The Director threw in additional facts that had not heretofore been at issue for abuse of process. Appx00064. Discovery misconduct had been treated as a separate issue in Paper 102, but Paper 102 never discussed it as a basis for abuse of process or awarding attorney's fees. Appx00052-65 (addressing alleged discovery misconduct); Appx00065-81.[10] This shift deprived OpenSky of fair notice by imposing sanctions based on allegations that were not clearly articulated in Paper 102.

An agency may not change theories in midstream without giving respondents reasonable notice of the change and the opportunity to present argument under the new theory. *Belden*, 805 F.3d at 1080. The

[10] This contrasts to the Director's orders in the PQA matter. There, the Director ordered PQA to "show cause" why the Director should not award attorneys fees for refusing to comply with the mandated discovery. *Patent Quality Assurance, LLC v. VLSI Technology LLC*, IPR2021-01229, Paper 131 at 43 (Aug. 3, 2023).

APA prohibits arbitrary and capricious decision-making, requiring agencies to articulate a consistent and rational basis for their actions. *Fox Television*, 556 U.S. at 515; *State Farm*, 463 U.S. at 43. By first asserting one basis for sanctions and later expanding it to include unrelated conduct, the Director moved the goalposts, denying OpenSky the ability to meaningfully defend itself. The shift from an intent-based theory in Paper 102 to an undefined "totality of conduct" rationale in Paper 127 is a textbook violation of the APA's notice and reasoned decision-making requirements.

F. Conclusion: Reversal, Not Remand, Is the Only Appropriate Remedy

The Director's sanctions order stands on a procedurally and legally untenable foundation. From banning declarations while demanding proof of subjective motivations, to concocting two new "abuse of process" standards, to shifting the conduct supporting the "abuse of process" sanction, the Director violated fundamental APA and constitutional due process guarantees.

Under *Belden*, 805 F.3d at 1080, and *Fox Television*, 556 U.S. at 515-16, an agency cannot "move the goalposts" and then blame a regulated party for failing to meet newly minted rules. Where, as here, the Director's entire sanctions framework hinges on unsupported

factual inferences, undisclosed standards, and a misapplication of law, the appropriate remedy is **reversal, not remand**. Remanding would only permit another round of *ad hoc* rationalizations. This Court should therefore reverse the Director's sanctions order in its entirety, vindicating the APA's core requirement of fair notice and reasoned decision-making.

CONCLUSION

This Court should set aside the Director's decisions awarding attorneys' fees to VLSI from OpenSky.

Dated: February 3, 2025 Respectfully submitted,

/s/ David E. Boundy

David E. Boundy
POTOMAC LAW GROUP, PLLC
P.O. Box. 590638
Newton, MA 02459
Tel. 646.472.9737
dboundy@potomaclaw.com
Counsel for Petitioner-Cross-Appellant OpenSky Indus., LLC

CERTIFICATE OF COMPLIANCE

Pursuant to Federal Rule of Appellate Procedure 32(g)(1), the undersigned hereby certifies that this brief complies with the type-volume limitation of Federal Rule of Appellate Procedure 32(a)(7)(B) and Federal Circuit Rule 32(b)(1), because:

1. Excluding the exempted portions of the document, as provided in Federal Rule of Appellate Procedure 32(f) and Federal Circuit Rule 32(b)(2)) this brief contains 13,651 words.

2. This brief has been prepared using Microsoft Word 2003 in 14-point Century Schoolbook, a proportionally spaced typeface that complies with the typeface requirements of Federal Rule of Appellate Procedure 32(a)(5) and the type-style requirements of Federal Rule of Appellate Procedure 32(a)(6). As permitted by Federal Rule of Appellate Procedure 32(g)(2), the undersigned has relied upon the word count feature of this word processing system in preparing this certificate.

Dated: February 3, 2025 /s/ David E. Boundy

David Boundy

ADDENDUM

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5 U.S.C. §554 Adjudications

(b) Persons entitled to notice of an agency hearing shall be timely informed of— …

(3) the matters of fact and law asserted.

When private persons are the moving parties, other parties to the proceeding shall give prompt notice of issues controverted in fact or law; and in other instances agencies may by rule require responsive pleading. …

(c) The agency shall give all interested parties opportunity for—

(1) the submission and consideration of facts, arguments, offers of settlement, or proposals of adjustment when time, the nature of the proceeding, and the public interest permit; and

5 U.S.C. § 556 Hearings; presiding employees; powers and duties; burden of proof; evidence; record as basis of decision

(d) … Any oral or documentary evidence may be received, but the agency as a matter of policy shall provide for the exclusion of irrelevant, immaterial, or unduly repetitious evidence. A sanction may not be imposed or rule or order issued except on consideration of the whole record or those parts thereof cited by a party and supported by and in accordance with the reliable, probative, and substantial evidence. … A party is entitled 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.

5 U.S.C. § 706 Scope of review

To the extent necessary to decision and when presented, the reviewing court shall decide all relevant questions of law, interpret constitutional and statutory provisions, and

determine the meaning or applicability of the terms of an agency action. The reviewing court shall— …

(2) hold unlawful and set aside agency action, findings, and conclusions found to be—

(A) arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law;

(B) contrary to constitutional right, power, privilege, or immunity;

(C) in excess of statutory jurisdiction, authority, or limitations, or short of statutory right;

(D) without observance of procedure required by law;

(E) unsupported by substantial evidence in a case subject to sections 556 and 557 of this title or otherwise reviewed on the record of an agency hearing provided by statute…

35 U.S.C. § 316 - Conduct of inter partes review

(a) *Regulations.*—The Director shall prescribe regulations— …

(4) establishing and governing inter partes review under this chapter and the relationship of such review to other proceedings under this title;

(5) setting forth standards and procedures for discovery of relevant evidence, including that such discovery shall be limited to—

(A) the deposition of witnesses submitting affidavits or declarations; and

(B) what is otherwise necessary in the interest of justice;

(6) prescribing sanctions for abuse of discovery, abuse of process, or any other improper use of the proceeding, such as to harass or to cause unnecessary delay or an unnecessary increase in the cost of the proceeding; …

19 U.S.C. § 1337 - Unfair practices in import trade

(h) Sanctions for abuse of discovery and abuse of process

The Commission may by rule prescribe sanctions for abuse of discovery and abuse of process to the extent authorized by Rule 11 and Rule 37 of the Federal Rules of Civil Procedure.

Rule 11. Signing Pleadings, Motions, and Other Papers; Representations to the Court; Sanctions

(c) Sanctions.

(1) In General. If, after notice and a reasonable opportunity to respond, the court determines that Rule 11(b) has been violated, the court may impose an appropriate sanction on any attorney, law firm, or party that violated the rule or is responsible for the violation. Absent exceptional circumstances, a law firm must be held jointly responsible for a violation committed by its partner, associate, or employee.

…

(4) Nature of a Sanction. A sanction imposed under this rule must be limited to what suffices to deter repetition of the conduct or comparable conduct by others similarly situated. The sanction may include nonmonetary directives; an order to pay a penalty into court; or, if imposed on motion and warranted for effective deterrence, an order directing payment to the movant of part or all of the reasonable attorney's fees and other expenses directly resulting from the violation.

(5) Limitations on Monetary Sanctions. The court must not impose a monetary sanction:

(A) against a represented party for violating Rule 11(b)(2); or

(6) Requirements for an Order. An order imposing a sanction must describe the sanctioned conduct and explain the basis for the sanction.

(d) Inapplicability to Discovery. This rule does not apply to disclosures and discovery requests, responses, objections, and motions under Rules 26 through 37.

Rule 37. Failure to Make Disclosures or to Cooperate in Discovery; Sanctions

(a) Motion for an Order Compelling Disclosure or Discovery.

(1) *In General.* On notice to other parties and all affected persons, a party may move for an order compelling disclosure or discovery. The motion must include a certification that the movant has in good faith conferred or attempted to confer with the person or party failing to make disclosure or discovery in an effort to obtain it without court action.

(3) *Specific Motions.*

(A) *To Compel Disclosure.* If a party fails to make a disclosure required by Rule 26(a), any other party may move to compel disclosure and for appropriate sanctions.

(4) *Evasive or Incomplete Disclosure, Answer, or Response.* For purposes of this subdivision (a), an evasive or incomplete disclosure, answer, or response must be treated as a failure to disclose, answer, or respond.

(5) *Payment of Expenses; Protective Orders.*

(A) *If the Motion Is Granted (or Disclosure or Discovery Is Provided After Filing).* If the motion is granted—or if the disclosure or requested discovery is provided after the motion was filed—the court must, after giving an opportunity to be heard, require the party or deponent whose conduct necessitated the motion, the party or attorney advising that conduct, or both to pay the movant's reasonable expenses incurred in making the motion, including attorney's fees. But the court must not order this payment if:

(i) the movant filed the motion before attempting in good faith to obtain the disclosure or discovery without court action;

(ii) the opposing party's nondisclosure, response, or objection was substantially justified; or

(iii) other circumstances make an award of expenses unjust.

(B) *If the Motion Is Denied.* If the motion is denied, the court may issue any protective order authorized under Rule 26(c) and must, after giving an opportunity to be heard, require the movant, the attorney filing the motion, or both to pay the party or deponent who opposed the motion its reasonable expenses incurred in opposing the motion, including attorney's fees. But the court must not order this payment if the motion was substantially justified or other circumstances make an award of expenses unjust.

(b) Failure to Comply with a Court Order.

(2) *Sanctions Sought in the District Where the Action Is Pending.*

(A) *For Not Obeying a Discovery Order.* If a party or a party's officer, director, or managing agent … fails to obey an order to provide or permit discovery, including an order under Rule 26(f), 35, or 37(a), the court where the action is pending may issue further just orders. They may include the following:

(i) directing that the matters embraced in the order or other designated facts be taken as established for purposes of the action, as the prevailing party claims;

(ii) prohibiting the disobedient party from supporting or opposing designated claims or defenses, or from introducing designated matters in evidence;

(iii) striking pleadings in whole or in part;

(iv) staying further proceedings until the order is obeyed;

(v) dismissing the action or proceeding in whole or in part;

(vi) rendering a default judgment against the disobedient party; or

(vii) treating as contempt of court the failure to obey any order except an order to submit to a physical or mental examination. …

(C) *Payment of Expenses.* Instead of or in addition to the orders above, the court must order the disobedient party, the attorney advising that party, or both to pay the reasonable expenses, including attorney's fees, caused by the failure, unless the failure was substantially justified or other circumstances make an award of expenses unjust.

(c) Failure to Disclose, to Supplement an Earlier Response, or to Admit.

(1) *Failure to Disclose or Supplement.* If a party fails to provide information or identify a witness as required by Rule 26(a) or (e), the party is not allowed to use that information or witness to supply evidence on a motion, at a hearing, or at a trial, unless the failure was substantially justified or is harmless. In addition to or instead of this sanction, the court, on motion and after giving an opportunity to be heard:

(A) may order payment of the reasonable expenses, including attorney's fees, caused by the failure;

(B) may inform the jury of the party's failure; and

(C) may impose other appropriate sanctions, including any of the orders listed in Rule 37(b)(2)(A)(i)-(vi).

37 C.F.R. § 42.11 Duty of candor; signing papers; representations to the Board; sanctions

(c) *Representations to the Board*. By presenting to the Board a petition, response, written motion, or other paper—whether by signing, filing, submitting, or later advocating it—an attorney, registered practitioner, or unrepresented

party attests to compliance with the certification requirements under § 11.18(b)(2) of this chapter.

37 C.F.R. § 42.12 Sanctions

(a) The Board may impose a sanction against a party for misconduct, including:

(1) Failure to comply with an applicable rule or order in the proceeding; …

(5) Abuse of discovery;

(6) Abuse of process; …

(b) Sanctions include entry of one or more of the following:

(a) An order holding facts to have been established in the proceeding;

(2) An order expunging or precluding a party from filing a paper;

(3) An order precluding a party from presenting or contesting a particular issue;

(4) An order precluding a party from requesting, obtaining, or opposing discovery;

(5) An order excluding evidence;

(6) An order providing for compensatory expenses, including attorney fees;

(7) An order requiring terminal disclaimer of patent term; or

(8) Judgment in the trial or dismissal of the petition.

37 C.F.R. § 42.51 Discovery.

(a) *Mandatory initial disclosures.*

(1) *With agreement*. Parties may agree to mandatory discovery requiring the initial disclosures set forth in the Office Patent Trial Practice Guide.

(i) The parties must submit any agreement reached on initial disclosures by no later than the filing of the patent

owner preliminary response or the expiration of the time period for filing such a response. The initial disclosures of the parties shall be filed as exhibits.

(ii) Upon the institution of a trial, parties may automatically take discovery of the information identified in the initial disclosures.

(2) *Without agreement*. Where the parties fail to agree to the mandatory discovery set forth in paragraph (a)(1), a party may seek such discovery by motion.

(b) *Limited discovery*. A party is not entitled to discovery except as provided in paragraph (a) of this section, or as otherwise authorized in this subpart.

(1) *Routine discovery*. Except as the Board may otherwise order:

(i) Unless previously served or otherwise by agreement of the parties, any exhibit cited in a paper or in testimony must be served with the citing paper or testimony.

(ii) Cross examination of affidavit testimony prepared for the proceeding is authorized within such time period as the Board may set.

(iii) Unless previously served, a party must serve relevant information that is inconsistent with a position advanced by the party during the proceeding concurrent with the filing of the documents or things that contains the inconsistency. This requirement does not make discoverable anything otherwise protected by legally recognized privileges such as attorney-client or attorney work product. This requirement extends to inventors, corporate officers, and persons involved in the preparation or filing of the documents or things.

(2) *Additional discovery*.

(i) The parties may agree to additional discovery between themselves. Where the parties fail to agree, a party may move for additional discovery. The moving party must show that such additional discovery is in the interests of

justice, …. The Board may specify conditions for such additional discovery.

(ii) When appropriate, a party may obtain production of documents and things during cross examination of an opponent's witness or during authorized compelled testimony under § 42.52.

(c) *Production of documents*. Except as otherwise ordered by the Board, a party producing documents and things shall either provide copies to the opposing party or make the documents and things available for inspection and copying at a reasonable time and location in the United States.

37 C.F.R. § 42.52 Compelling testimony and production.

(a) *Authorization required*. A party seeking to compel testimony or production of documents or things must file a motion for authorization. The motion must describe the general relevance of the testimony, document, or thing, and must:

(1) In the case of testimony, identify the witness by name or title; and

(2)In the case of a document or thing, the general nature of the document or thing.

37 C.F.R. § 42.53 Taking testimony.

(a) *Form*. Uncompelled direct testimony must be submitted in the form of an affidavit. All other testimony, including testimony compelled under 35 U.S.C. 24, must be in the form of a deposition transcript. Parties may agree to video-recorded testimony, but may not submit such testimony without prior authorization of the Board. In addition, the Board may authorize or require live or video-recorded testimony.

37 C.F.R. § 42.57 Privilege for patent practitioners.

(a) *Privileged communications*. A communication between a client and a USPTO patent practitioner or a foreign jurisdiction patent practitioner that is reasonably necessary and incident to the scope of the practitioner's authority shall receive the same protections of privilege under Federal law as if that communication were between a between a client and an attorney authorized to practice in the United States, including all limitations and exceptions.

DEPARTMENT OF COMMERCE

Patent and Trademark Office

37 CFR Part 1

[Docket No. 950207044–5044–01]

RIN 0651–AA71

Patent Appeal and Interference Practice

AGENCY: Patent and Trademark Office, Commerce.

ACTION: Final rule.

SUMMARY: The Patent and Trademark Office (PTO) is amending the rules of practice in patent cases relating to patent appeal and interference proceedings. The changes include amendments to conform the interference rules to new legislative requirements and a number of clarifying and housekeeping amendments.

EFFECTIVE DATE: This document is effective April 21, 1995, except § 1.11(e) which is effective March 17, 1995.

FOR FURTHER INFORMATION CONTACT: Fred E. McKelvey by telephone at (703) 603–3361 or by mail marked to the attention of Fred E. McKelvey at P.O. Box 15647, Arlington, Virginia 22215.

SUPPLEMENTARY INFORMATION: A Notice of Proposed Rulemaking was published in the **Federal Register** (59 FR 50181) on October 3, 1994, and in the Official Gazette of the Patent and Trademark Office (1167 Off. Gaz. Pat. Office 98) on October 25, 1994. In response to a request for written comments, twenty-six written comments were received. A public hearing was held on December 7, 1994, at which four witnesses testified. The written comments and the suggestions made at the public hearing represent the views of fifteen individuals and corporations and three patent law associations, namely, the Committee on Interferences of the American Bar Association, the Interference Committee of the American Intellectual Property Law Association and the Japan Intellectual Property Association. These comments and suggestions are addressed below in the discussion of the rule changes to which they pertain. A number of suggested rule changes, though meritorious, cannot be adopted at this time because they are believed to be outside the scope of the present rulemaking. Accordingly, those suggestions will be the subject of a future rulemaking.

The provisions of the rules, as amended, will be applied in pending interferences to the extent reasonably possible. However, it is the desire of PTO to avoid applying the rules, as adopted, to pending interferences where substantial prejudice would result. For example, generally speaking, in cases where the periods for filing preliminary motions and preliminary statements have been set, the current preliminary motion and preliminary statement rules will apply, although parties are free to voluntarily comply with the rules as amended. Generally speaking, in cases where the testimony periods have been set, the current testimony and record rules will apply. The question of whether substantial prejudice will result in a particular case is a matter within the discretion of the administrative patent judge or the Board.

I. Amendments Responsive to Adoption of Public Laws 103–182 and 103–465

As indicated in the Notice of Proposed Rulemaking, several of the amendments to the interference rules (i.e., 37 CFR 1.601 *et seq.*) are responsive to Public Law 103–182, 107 Stat. 2057 (1993) (North American Free Trade Agreement Implementation Act, hereinafter NAFTA Implementation Act), which amended 35 U.S.C. 104 to permit an applicant or patentee, with respect to an application filed on or after December 8, 1993, to rely on activities occurring in a ''NAFTA country'' to prove a date of invention no earlier than December 8, 1993, except as provided in 35 U.S.C. 119 and 365. On December 8, 1994, which was subsequent to publication of the Notice of Proposed Rulemaking, Public Law 103–465, 108 Stat. 4809 (1994) (Uruguay Round Agreements Act) was signed into law, which further amended 35 U.S.C. 104 to permit an applicant or a patentee, with respect to an application filed on or after January 1, 1996, to rely on activities occurring in a WTO member country to prove a date of invention no earlier than January 1, 1996, except as provided in 35 U.S.C. 119 and 365. Section 104, as amended by Public Law 103–465, reads as follows:

Section 104. Invention made abroad.

(a) IN GENERAL.—

(1) PROCEEDINGS.—In proceedings in the Patent and Trademark Office, in the courts, and before any other competent authority, an applicant for a patent, or a patentee, may not establish a date of invention by reference to knowledge or use thereof, or other activity with respect thereto, in a foreign country other than a NAFTA country or a WTO member country, except as provided in sections 119 and 365 of this title.

(2) RIGHTS.—If an invention was made by a person, civil or military—

(A) while domiciled in the United States, and serving in any other country in connection with operations by or on behalf of the United States,

(B) while domiciled in a NAFTA country and serving in another country in connection with operations by or on behalf of that NAFTA country, or

(C) while domiciled in a WTO member country and serving in another country in connection with operations by or on behalf of that WTO member country,

that person shall be entitled to the same rights of priority in the United States with respect to such invention as if such invention had been made in the United States, that NAFTA country, or that WTO member country, as the case may be.

(3) USE OF INFORMATION.—To the extent that any information in a NAFTA country or a WTO member country concerning knowledge, use, or other activity relevant to proving or disproving a date of invention has not been made available for use in a proceeding in the Patent and Trademark Office, a court, or any other competent authority to the same extent as such information could be made available in the United States, the Commissioner, court, or such other authority shall draw appropriate inferences, or take other action permitted by statute, rule, or regulation, in favor of the party that requested the information in the proceeding.

(b) DEFINITIONS.—As used in this section—

(1) the term 'NAFTA country' has the meaning given that term in section 2(4) of the North American Free Trade Agreement Implementation Act; and

(2) the term 'WTO member country' has the meaning given that term in section 2(10) of the Uruguay Round Agreements Act.

Section 2(4) of the NAFTA Implementation Act is codified at 19 U.S.C. 3301; § 2(10) of the Uruguay Round Agreements Act is codified at 19 U.S.C. 3501.

The Notice of Proposed Rulemaking proposed adding a new paragraph (r) to § 1.601 defining ''NAFTA country'' to mean ''NAFTA country'' as defined in section 2(4) of the NAFTA Implementation Act and ''non-NAFTA country'' to mean a country other than a NAFTA country. One comment questioned whether ''NAFTA country'' should be defined in the rules to include the United States. The answer is no. ''NAFTA country'' as used in 35 U.S.C. 104 has the meaning given that term in section 2(4) of the NAFTA Implementation Act, which refers to only Canada and Mexico. Another comment observed that the proposed terms ''NAFTA country'' and ''non-NAFTA country'' do not appear to contemplate that inventive acts may occur in a foreign place that is not part of any ''country'' and suggested either using the phrase ''outside the United States or a NAFTA country'' instead of ''non-NAFTA country'' or else defining ''non-NAFTA country'' to mean ''a *place* other than the United States or a NAFTA country.'' The comment is well

is yes. One purpose of 35 U.S.C. 104 is to ensure that evidence for interferences is available in foreign countries in essentially the same manner that it is available in the United States. If the evidence is not available, then the appropriate inference provisions of 35 U.S.C. 104 shall be applied by PTO.

After the Notice of Proposed Rulemaking was published, it became apparent that the term ''ordered'' in the phrase ''to the extent that any information under the control of an individual or entity located in a NAFTA country or a WTO member country * * * has been ordered to be produced by an administrative patent judge or the Board'' may not be appropriate. Neither an administrative patent judge nor the Board can order testimony or production of documents and things in a foreign country from a witness who, or an entity that, is neither a party nor under the control of a party. Instead, an administrative patent judge or the Board can only authorize a party to seek to compel testimony or production in a foreign country from a witness or entity not under the control of a party. Accordingly, § 1.616(c) as adopted reads instead as follows:

(c) To the extent that an administrative patent judge or the Board has authorized a party to compel the taking of testimony or the production of documents or things from an individual or entity located in a NAFTA country or a WTO member country concerning knowledge, use, or other activity relevant to to proving or disproving a date of invention (§ 1.671(h)), but the testimony, documents or things have not been produced for use in the interference to the same extent as such information could be made available in the United States, the administrative patent judge or the Board shall draw such adverse inferences as may be appropriate under the circumstances, or take such other action permitted by statute, rule, or regulation, in favor of the party that requested the information in the interference, including imposition of appropriate sanctions under paragraph (a) of this section.

As proposed in the Notice of Proposed Rulemaking, § 1.647, which currently requires a party who relies on a non-English language document to provide an English-language translation and an affidavit attesting to its accuracy, is revised to extend these requirements to any non-English language documents that a party is required to produce via discovery. One comment expressed the concern that the proposed amendment might impose an unnecessary financial burden on a non-U.S. party by requiring translations of compelled documents that are very long and have little or no relevance. The concern is believed to be misplaced. First, discovery in interferences, like discovery under the Federal Rules of Civil Procedure, is limited to evidence that is relevant. Second, as to relevant evidence, the scope of discovery under the interference rules is considerably narrower than the discovery available under the Federal Rules of Civil Procedure. Another comment stated that the general practice is that a party proffering a document is responsible for the cost of translation. The comment nevertheless suggested that in the case of documents offered to be produced during discovery, including cross-examination discovery pursuant to § 1.687(b), the documents be produced in the foreign language, with the recipient then indicating which documents it wishes to have translated and costs to be borne equally by the parties. The suggestion is not being adopted. In implementing practice under 35 U.S.C. 104, as amended, it is PTO's initial view that a correct policy is the one which the commentator says is the ''general practice.'' Whether a different policy might be appropriate at some future time is something that will be tested with experience.

II. Compensatory Attorney Fees and Expenses

Section 1.616, in addition to the amendments discussed above, also is revised by redesignating current paragraphs (a) through (e) as paragraphs (a)(1) through (a)(4) and (a)(6) and adding new paragraphs (a)(5) and (b).

Section 1.616(a)(5), as amended, authorizes the award of compensatory (as opposed to punitive) expenses and/or compensatory attorney fees as a sanction for failing to comply with the rules or an order. This sanction shall apply only to conduct occurring in an interference on or after the effective date of § 1.616 as amended. It is believed that there may be occasions when an award of compensatory expenses and/or compensatory attorney fees would be more commensurate in scope with the infraction than the sanctions that are currently authorized.

There are administrative decisions which seemingly hold that the tribunals of PTO do not have authority to award expenses and attorney fees. *See, e.g., Driscoll* v. *Cebalo*, 5 USPQ2d 1477, 1481 (Bd. Pat. Int. 1982) (the rules do not provide us with the jurisdiction to award expenses and we know of no authority which does), *aff'd in part, rev'd in part*, 731 F.2d 878, 221 USPQ 745 (Fed. Cir. 1984); *Clevenger* v. *Martin*, 1 USPQ2d 1793, 1797 (Bd. Pat. App. & Int. 1986) (we do not have authority under the rules to award attorney's fees); *MacMillan Bloedel, Ltd.* v. *Arrow-M Corp.*, 203 USPQ 952, 953 (TTAB 1979) (the TTAB is without authority to award expenses and attorney's fees); *Fisons, Ltd.* v. *Capability Brown, Ltd.*, 209 USPQ 167, 171 (TTAB 1980) (request for attorney's fees denied because good cause not shown and the TTAB has no authority to grant such requests); *Jonergin Co.* v. *Jonergin Vermont, Inc.*, 222 USPQ 337, 340–41 (Comm'r Pat. 1983) (TTAB did not err in refusing to award reasonable expenses and attorney's fees under 37 CFR 2.116(a), 2.120 and Fed. R. Civ. P. 37(a)(4)); *Anheuser-Busch, Inc.* v. *Major Mud & Chemical Co.*, 221 USPQ 1191, 1195 n.9 (TTAB 1984) (request for costs and attorneys fees was denied, inter alia, on the ground that the TTAB had no authority to award such fees and costs); *Luehrmann* v. *Kwik Kopy Corp.*, 2 USPQ2d 1303, 1305 n.4 (TTAB 1987) (the TTAB has no authority to grant monetary relief); *Fort Howard Paper Co.* v. *G.V. Gambina, Inc.*, 4 USPQ2d 1552, 1554 (TTAB 1987) (the TTAB has no authority to order costs or attorney's fees); *Paolo's Associates Ltd. Partnership* v. *Bodo*, 21 USPQ2d 1899, 1904 n.3 (Comm'r Pat. 1990) (the TTAB was correct in holding that 37 CFR 2.127(f) denies the TTAB authority to either award attorney's fees or costs to any party in a cancellation and opposition proceeding); *Nabisco Brands, Inc.* v. *Keebler Co.*, 28 USPQ2d 1237, 1238 (TTAB 1993) (the TTAB held, inter alia, that it did not have authority to award fees under 37 CFR 2.127(f)).

None of the decisions mentioned above provide any reasoned analysis or rationale to explain why the Commissioner lacks authority to promulgate a rule which would authorize imposition of monetary sanctions in appropriate cases. In view of the existence of the decisions, however, it is believed that a discussion of the Commissioner's authority to promulgate a rule authorizing the Board to award compensatory monetary sanctions is appropriate.

The Commissioner has been delegated the authority by the Congress to ''establish regulations, not inconsistent with law, for the conduct of proceedings in the Patent and Trademark Office.'' 35 U.S.C. 6(a).

The U.S. Court of Appeals for the Federal Circuit upheld the authority of the Commissioner to issue regulations imposing sanctions in interference cases. In *Gerritsen* v. *Shirai*, 979 F.2d 1524, 24 USPQ2d 1912 (Fed. Cir. 1992), the Federal Circuit noted that 37 CFR 1.616 was a permissible exercise of the Commissioner's authority under 35 U.S.C. 6(a) and complied with the limitation on sanctions of the

Administrative Procedure Act. The court stated (979 F.2d at 1527 n.3, 24 USPQ2d at 1915 n.3):

> 35 U.S.C. § 6(a) (1988) permits the Commissioner of Patents and Trademarks to ''establish regulations, not inconsistent with law, for the conduct of proceedings in the Patent and Trademark Office.'' Congress thus delegated plenary authority over PTO practice, including interference proceedings, to the Commissioner. On its face, 37 CFR § 1.616 represents a permissible exercise of that authority. Since the decision to impose a sanction * * * was authorized by law, it comports with the Administrative Procedure Act, 5 U.S.C. § 558(b) (1988).

In *Gerritsen*, the Federal Circuit held that the particular rule violation was sanctionable, but that the specific sanction chosen by the Board was too severe. Accordingly, the sanction was vacated and the case was remanded to the Board for imposition of a more appropriate sanction.

In *Abrutyn* v. *Giovanniello*, 15 F.3d 1048, 1050, 29 USPQ2d 1615, 1617 (Fed. Cir. 1994), the Federal Circuit again upheld the authority of the Board or an administrative patent judge to impose sanctions, including imposition of the most severe sanction, granting judgment against one of the parties:

> The Board or EIC [Examiner-in-Chief, now administrative patent judge] may impose an appropriate sanction, including granting judgment in an interference, against a party who fails to comply with the rules governing interferences, including filing deadlines. 37 CFR § 1.616 (1993).

Gerritsen and *Abrutyn* judicially establish that the Commissioner has authority under 35 U.S.C. 6(a) to promulgate regulations which impose a spectrum of sanctions, including imposition of the ultimate sanction of judgment or dismissal.

As a general matter, agencies are given broad authority in the selection of an appropriate sanction. The choice of sanction within agency statutory limits will be upheld unless it constitutes an abuse of discretion. *Butz* v. *Glover Livestock Comm'n Co.*, 411 U.S. 182 (1973); *Lawrence* v. *Commodity Futures Trading Comm'n*, 759 F.2d 767, 774 (9th Cir. 1985). Current § 1.616 authorizes an administrative patent judge or the Board to impose a spectrum of sanctions. The sanctions range from holding certain facts established for purposes of the interference (37 CFR § 1.616 (a)) to granting judgment against the party who violated a regulation or an order (37 CFR § 1.616(e)). As indicated above, the Federal Circuit has upheld the Commissioner's authority to promulgate § 1.616 and impose the specified sanctions (*Gerritsen*, 979 F.2d at 1527 n.3, 24 USPQ2d at 1915 n.3), including granting judgment against a party (*Abrutyn*, 15 F.3d at 1050, 29 USPQ2d at 1617). Judgment and dismissal are the most severe forms of sanction. *See National Hockey League* v. *Metropolitan Hockey Club*, 427 U.S. 639, 643 (1976); *Poulis* v. *State Farm Fire and Casualty Co.*, 747 F.2d 863, 867 (3d Cir. 1984); *Cine Forty-Second St. Theatre Corp* v. *Allied Artists Pictures Corp.*, 602 F.2d 1062, 1066 (2d Cir. 1979). Consistent with these cases, the Federal Circuit has held that a holding by the Board that a party is not entitled to a patent directed to certain claims is an extreme sanction. *Gerritsen*, 979 F.2d at 1532 n.12, 24 USPQ2d at 1919 n.12.

The imposition of monetary sanctions is manifestly a lesser sanction than judgment or dismissal. Indeed, reimbursement of expenses incurred as a result of inappropriate action by the opposing party has been held to be a mild form of sanction. *Cine Forty-Second St.*, 602 F.2d at 1066. More stringent sanctions include orders striking out portions of a pleading, orders prohibiting the introduction of evidence on a particular point, and orders deeming a disputed issue determined adversely to the position of a disobedient party. *Id.*

Since the imposition of a monetary sanction is a lesser sanction than judgment against a party, the inclusion of an ''appropriate'' monetary sanction in § 1.616, as adopted, is not outside the Commissioner's rulemaking authority and would not be inconsistent with the sanctions already present in § 1.616.

Whether a monetary sanction is appropriate depends on the purpose of the sanction. Civil sanctions may be categorized as penal and remedial. One is not to be subjected by an agency to a penal sanction unless the words of the statute plainly authorize imposition of a penal sanction. *Commissioner* v. *Acker*, 361 U.S. 87, 91 (1959). Thus, a statute must plainly authorize an agency's power to impose penalties. *Pender Peanut Corp.* v. *United States*, 20 Civil Court 447, 453–55 (1990). Agencies have no inherent authority, based solely on their enabling statute, to impose penal sanctions. That authority must be expressly given in the statute. *Pender Peanut Corp.*, 20 Cl. Ct. at 453–55 (1990); *Gold Kist, Inc.* v. *Department of Agriculture*, 741 F. 2d 344, 348 (11th Cir. 1984); Koch, *Administrative Law and Practice* § 6.81 (1985). A penal sanction has been defined as one which inflicts a punishment. *United States* v. *Frame*, 885 F.2d 1119, 1142 (3d Cir. 1989).

On the other hand, an explicit grant of power from Congress need not underpin each exercise of agency authority. *See Zola* v. *Interstate Commerce Commission*, 889 F.2d 508, 516 (3d Cir. 1989), *citing Amoskeag Co.* v. *Interstate Commerce Commission*, 590 F.2d 388, 392 (1st Cir. 1979). Where the enabling statute authorizes the agency to make such rules and regulations as may be necessary to carry out the provisions of an act—the regulation will be sustained so long as it is reasonably related to the purpose of the act. *Mourning* v. *Family Publications Service, Inc.*, 411 U.S. 356, 369 (1973). Under its enabling legislation, an agency has inherent power to impose administrative sanctions that are not ''penalties'' as long as the sanctions are reasonably related to the purpose of the enabling statute. *Gold Kist*, 741 F.2d at 348. Accordingly, in evaluating whether the imposition of a sanction is within an agency's inherent powers, it is necessary to determine whether the sanction is remedial or punitive. *Frame*, 885 F.2d at 1142. Remedial sanctions may be within the agency's inherent powers if reasonably related to the purpose of enabling legislation. A remedial sanction is one whose purpose is not to stigmatize or punish wrongdoers. *Frame*, 885 F.2d at 1143.

Thus, in the absence of express statutory authority, the Commissioner's authority to impose monetary sanctions is limited to sanctions which are remedial in nature rather than punitive. In addition, the sanctions must be reasonably related to the purpose of enabling statute under which PTO operates. Under these guidelines, the Commissioner would appear to be without authority to issue a regulation which permits a penal sanction to be imposed against a party or an attorney for violation of a rule or order. Fines payable to Government, including PTO, are manifestly intended to punish wrongdoing and are thus punitive in nature. Assessment to redress an injury to the public is in the nature of a penalty. *Republic Steel Corp. v. National Labor Relations Board*, 311 U.S. 7, 12–13 (1940). On the other hand, the imposition of costs or expenses, including attorneys' fees, incurred by an opposing party due to the violation of a rule or order, may properly be considered remedial. Imposing costs or attorneys' fees serves to defray the expenses actually incurred by the opposing party for the violation of a rule or order by an opponent. *See Poulis*, 747 F.2d at 869 (non-dilatory party will not have to bear the brunt of the attorney's delay). Monetary sanctions would enhance the Board's ability to protect the integrity of its proceedings. *See Zola*, 889 F.2d at 516 (ICC justified in

imposing monetary sanctions in acting to protect the integrity of its jurisdiction). Monetary sanctions would also allow the Board to maintain control of its docket to maximize the use of limited resources. *See Griffin & Dickson v. United States*, 16 Cl. Ct. 347, 351 (1989) (case management responsibilities require broad inherent authority to impose [non-penal] sanctions). Imposition of monetary sanctions is the only sanction both mild enough and flexible enough to use in day-to-day enforcement of orderly and expeditious litigation. *Eash v. Riggins Trucking, Inc.*, 757 F.2d 557, 567, (3d Cir. 1985) (in banc). Thus, monetary sanctions are reasonably related to the Commissioner's plenary authority to promulgate regulations for the conduct of proceedings, including interference proceedings in PTO.

Section 1.616(b), as proposed to be amended, would have authorized the imposition of a sanction, including a sanction in the form of compensatory expenses and/or attorney fees, against a party for taking or maintaining a frivolous position. A number of comments were received opposing the authorization of sanctions for taking or maintaining frivolous positions (§ 1.616(b)). Several comments suggested that the question of what is ''frivolous'' is inherently highly subjective and will therefore be frequently raised, substantially increasing costs and delaying decisions on more substantive issues. PTO believes, however, consistent with other comments received during the comment period, that inasmuch as a groundless motion for sanctions would itself be grounds for sanctioning the movant for taking or maintaining a frivolous positions, it is expected that motions for sanctions will only be filed in clear cases. One comment suggested that § 1.616(b) be reworded to parallel Rule 11 of the Federal Rules of Civil Procedure so that sanctions would only be imposed upon motion by an opponent, subject to a twenty-one day ''safe harbor'' withdrawal provision, and would explicitly apply only to frivolous positions taken in writing. Another comment, while supportive of the proposed amendment on the ground that it should reduce the number of frivolous papers, cautioned against treating as frivolous ''that which is simply born of ignorance.'' The suggestion to have § 1.616(b) authorize sanctions imposed only on motion by a party is not being adopted. There may be situations in which the Board believes it would be appropriate to award compensatory fees or expenses even in the absence of a motion by a party. The suggestion that Fed. R. Civ. P. 11 permits sanctions only upon motion is believed to be incorrect; for example, Fed. R. Civ. P. 11(c)(1)(b) authorizes sanctions on the court's initiative. The suggestion to use the ''safe harbor'' approach of Fed. R. Civ. P. 11(c)(1)(A), which provides that a motion for sanctions shall be served but not filed unless, within 21 days after service of the motion, the challenged position is not withdrawn or appropriately corrected, is not being adopted. The administrative patent judge and the Board should know the reason why a party has withdrawn or corrected a position. Nevertheless, in order to make it clear that sanctions will not be imposed for mistakenly taking an erroneous position that is withdrawn or corrected as soon as the error becomes apparent, the proposed phrase ''for taking *or* maintaining a frivolous position'' in changed to ''for taking *and* maintaining a frivolous position.''

The suggestion that § 1.616(b) sanctions be limited to frivolous positions taken in writing is based on the Advisory Committee Note on the 1993 amendments to Fed. R. Civ. P. 11. The Note states in pertinent part: ''The rule applies only to assertions contained in papers filed with or submitted to the court. It does not cover matters arising for the first time during oral presentations to the court, when counsel may make statements that would not have been made if there had been made if there had been more time for study and reflection.'' For the reason given in the Advisory Committee Note, the suggestion is being adopted. Accordingly, § 1.616(b) as adopted is limited to a frivolous position taken and maintained in papers filed in the interference and shall apply only to frivolous positions taken and maintained after the effective date of § 1.616 as amended.

Other comments questioned how the Board intends to handle proof of amounts of compensatory expenses and/or attorney fees and expressed the hope that attorney fee awards will not be *de facto* discriminatory as between highly paid outside counsel and in-house counsel without fees or billing records. The matter of how to prove amounts of compensatory expenses and/or attorney fees will be handled on a case-by-case basis.

Another comment suggested that an administrative patent judge or the Board be required to issue an order to show cause prior to imposing a sanction, since a party may be able to explain why a sanction should not be imposed. The suggestion is presumably based on Fed. R. Civ. P. 11(c)(1)(B) and directed to cases in which an administrative patent judge or the Board on its own initiative determines that a sanction is appropriate. The suggestion is being adopted and implemented in a new paragraph, § 1.616(d). In addition, paragraph (d) expressly provides that a party may file a motion (§ 1.635) requesting the imposition of sanctions, the drawing of adverse inferences or other action under paragraph (a), (b) or (c) of § 1.616.

III. Certificates of Prior Consultation

Section 1.637(b) currently requires that a miscellaneous motion under § 1.635 contain a certificate stating that the moving party has conferred with all opponents in a good faith effort to resolve by agreement the issues raised by the motion and indicating whether any other party plans to oppose the motion. In the Notice of Proposed Rulemaking, it was proposed to amend paragraph (b) to extend the requirement for such a certificate to preliminary motions filed under § 1.633 and other motions filed under § 1.634. It also was proposed to require the certificate to indicate that the reasons and facts in support of the motion were discussed with each opponent and, if an opponent has indicated that it will oppose the motion, to identify the issues and/or facts believed to be in dispute.

The rationale offered in the Notice of Proposed Rulemaking for the amendment was an expectation that consultation would result in a reduction in the number of issues raised by motions under §§ 1.633–34, as well as a reduction in the number of motions filed under those rules. All but one of many comments received in response to the proposal urged that the proposed rule not be adopted. In support, it was said that the proposed rule would unnecessarily increase the time and costs required to file motions under §§ 1.633–34, particularly preliminary motions. PTO, upon reflection, agrees with the comments. Accordingly, the proposal to extend the consultation requirement of § 1.637(b) to §§ 1.633–34 motions is withdrawn. The withdrawal of the proposed rule, however, should not be interpreted as precluding an administrative patent judge from holding a conference call prior to the date preliminary motions are due for the purpose of discussing which preliminary motions the parties plan to file or from entering an order requiring prior consultation as to a particular motion.

Several comments, citing experience with the consultation requirement for § 1.635 motions, suggested that

patent judge shall exercise control over the interference such that the pendency of the interference before the Board does not normally exceed two years.

(d) An administrative patent judge may hold a conference with the parties to consider simplification of any issues, the necessity or desirability of amendments to counts, the possibility of obtaining admissions of fact and genuineness of documents which will avoid unnecessary proof, any limitations on the number of expert witnesses, the time and place for conducting a deposition (§ 1.673(g)), and any other matter as may aid in the disposition of the interference. After a conference, the administrative patent judge may enter any order which may be appropriate.

(e) The administrative patent judge may determine a proper course of conduct in an interference for any situation not specifically covered by this part.

14. Section 1.611 is amended by redesignating paragraph (c)(8) as paragraph (c)(9); adding a new paragraph (c)(8); and revising paragraphs (b), (c)(6), (c)(7), and (d) to read as follows:

§ 1.611 Declaration of interference.

* * * * *

(b) When a notice of declaration is returned to the Patent and Trademark Office undelivered, or in any other circumstance where appropriate, an administrative patent judge may send a copy of the notice to a patentee named in a patent involved in an interference or the patentee's assignee of record in the Patent and Trademark Office or order publication of an appropriate notice in the *Official Gazette.*

(c) * * *

(6) The count or counts and, if there is more than one count, the examiner's explanation why the counts define different patentable inventions;

(7) The claim or claims of any application or any patent which correspond to each count;

(8) The examiner's explanation as to why each claim designated as corresponding to a count is directed to the same patentable invention as the count and why each claim designated as not corresponding to any count is not directed to the same patentable invention as any count; and

* * * * *

(d) The notice of declaration may also specify the time for:

(1) Filing a preliminary statement as provided in § 1.621(a);

(2) Serving notice that a preliminary statement has been filed as provided in § 1.621(b); and

(3) Filing preliminary motions authorized by § 1.633.

* * * * *

15. Section 1.612 is amended by revising paragraph (a) to read as follows:

§ 1.612 Access to applications.

(a) After an interference is declared, each party shall have access to and may obtain copies of the files of any application set out in the notice declaring the interference, except for affidavits filed under § 1.131 and any evidence and explanation under § 1.608 filed separate from an amendment. A party seeking access to any abandoned or pending application referred to in the opponent's involved application or access to any pending application referred to in the opponent's patent must file a motion under § 1.635. See § 1.11(e) concerning public access to interference files.

* * * * *

16. Section 1.613 is amended by revising paragraphs (c) and (d) to read as follows:

§ 1.613 Lead attorney, same attorney representing different parties in an interference, withdrawal of attorney or agent.

* * * * *

(c) An administrative patent judge may make necessary inquiry to determine whether an attorney or agent should be disqualified from representing a party in an interference. If an administrative patent judge is of the opinion that an attorney or agent should be disqualified, the administrative patent judge shall refer the matter to the Commissioner. The Commissioner will make a final decision as to whether any attorney or agent should be disqualified.

(d) No attorney or agent of record in an interference may withdraw as attorney or agent of record except with the approval of an administrative patent judge and after reasonable notice to the party on whose behalf the attorney or agent has appeared. A request to withdraw as attorney or agent of record in an interference shall be made by motion (§ 1.635).

17. Section 1.614 is amended by revising paragraphs (a) and (c) to read as follows:

§ 1.614 Jurisdiction over interference.

(a) The Board acquires jurisdiction over an interference when the interference is declared under § 1.611.

* * * * *

(c) The examiner shall have jurisdiction over any pending application until the interference is declared. An administrative patent judge may for a limited purpose restore jurisdiction to the examiner over any application involved in the interference.

18. Section 1.615 is revised to read as follows:

§ 1.615 Suspension of ex parte prosecution.

(a) When an interference is declared, ex parte prosecution of an application involved in the interference is suspended. Amendments and other papers related to the application received during pendency of the interference will not be entered or considered in the interference without the consent of an administrative patent judge.

(b) Ex parte prosecution as to specified matters may be continued concurrently with the interference with the consent of the administrative patent judge.

19. Section 1.616 is revised to read as follows:

§ 1.616 Sanctions for failure to comply with rules or order or for taking and maintaining a frivolous position.

(a) An administrative patent judge or the Board may impose an appropriate sanction against a party who fails to comply with the regulations of this part or any order entered by an administrative patent judge or the Board. An appropriate sanction may include among others entry of an order:

(1) Holding certain facts to have been established in the interference;

(2) Precluding a party from filing a paper;

(3) Precluding a party from presenting or contesting a particular issue;

(4) Precluding a party from requesting, obtaining, or opposing discovery;

(5) Awarding compensatory expenses and/or compensatory attorney fees; or

(6) Granting judgment in the interference.

(b) An administrative patent judge or the Board may impose a sanction, including a sanction in the form of compensatory expenses and/or compensatory attorney fees, against a party for taking and maintaining a frivolous position in papers filed in the interference.

(c) To the extent that an administrative patent judge or the Board has authorized a party to compel the taking of testimony or the production of documents or things from an individual or entity located in a NAFTA country or a WTO member country concerning knowledge, use, or other activity relevant to proving or disproving a date of invention (§ 1.671(h)), but the testimony, documents or things have

not been produced for use in the interference to the same extent as such information could be made available in the United States, the administrative patent judge or the Board shall draw such adverse inferences as may be appropriate under the circumstances, or take such other action permitted by statute, rule, or regulation, in favor of the party that requested the information in the interference, including imposition of appropriate sanctions under paragraph (a) of this section.

(d) A party may file a motion (§ 1.635) for entry of an order imposing sanctions, the drawing of adverse inferences or other action under paragraph (a), (b) or (c) of this section. Where an administrative patent judge or the Board on its own initiative determines that a sanction, adverse inference or other action against a party may be appropriate under paragraph (a), (b) or (c) of this section, the administrative patent judge or the Board shall enter an order for the party to show cause why the sanction, adverse inference or other action is not appropriate. The Board shall take action in accordance with the order unless, within 20 days after the date of the order, the party files a paper which shows good cause why the sanction, adverse inference or other action would not be appropriate.

20. Section 1.617 is amended by revising paragraphs (a), (b), (d), (e), (g) and (h) to read as follows:

§ 1.617 Summary judgment against applicant.

(a) An administrative patent judge shall review any evidence filed by an applicant under § 1.608(b) to determine if the applicant is *prima facie* entitled to a judgment relative to the patentee. If the administrative patent judge determines that the evidence shows the applicant is *prima facie* entitled to a judgment relative to the patentee, the interference shall proceed in the normal manner under the regulations of this part. If in the opinion of the administrative patent judge the evidence fails to show that the applicant is *prima facie* entitled to a judgment relative to the patentee, the administrative patent judge shall, concurrently with the notice declaring the interference, enter an order stating the reasons for the opinion and directing the applicant, within a time set in the order, to show cause why summary judgment should not be entered against the applicant.

(b) The applicant may file a response to the order, which may include an appropriate preliminary motion under § 1.633 (c), (f) or (g), and state any reasons why summary judgment should not be entered. Any request by the applicant for a hearing before the Board shall be made in the response. Additional evidence shall not be presented by the applicant or considered by the Board unless the applicant shows good cause why any additional evidence was not initially presented with the evidence filed under § 1.608(b). At the time an applicant files a response, the applicant shall serve a copy of any evidence filed under § 1.608(b) and this paragraph.

* * * * *

(d) If a response is timely filed by the applicant, all opponents may file a statement and may oppose any preliminary motion filed under § 1.633 (c), (f) or (g) by the applicant within a time set by the administrative patent judge. The statement may set forth views as to why summary judgment should be granted against the applicant, but the statement shall be limited to discussing why all the evidence presented by the applicant does not overcome the reasons given by the administrative patent judge for issuing the order to show cause. Except as required to oppose a motion under § 1.633 (c), (f) or (g) by the applicant, evidence shall not be filed by any opponent. An opponent may not request a hearing.

(e) Within a time authorized by the administrative patent judge, an applicant may file a reply to any statement or opposition filed by any opponent.

* * * * *

(g) If a response by the applicant is timely filed, the administrative patent judge or the Board shall decide whether the evidence submitted under § 1.608(b) and any additional evidence properly submitted under paragraphs (b) and (e) of this section shows that the applicant is *prima facie* entitled to a judgment relative to the patentee. If the applicant is not *prima facie* entitled to a judgment relative to the patentee, the Board shall enter a final decision granting summary judgment against the applicant. Otherwise, an interlocutory order shall be entered authorizing the interference to proceed in the normal manner under the regulations of this subpart.

(h) Only an applicant who filed evidence under § 1.608(b) may request a hearing. If that applicant requests a hearing, the Board may hold a hearing prior to entry of a decision under paragraph (g) of this section. The administrative patent judge shall set a date and time for the hearing. Unless otherwise ordered by the administrative patent judge or the Board, the applicant and any opponent will each be entitled to no more than 30 minutes of oral argument at the hearing.

21. Section 1.618 is amended by revising paragraph (a) to read as follows:

§ 1.618 Return of unauthorized papers.

(a) An administrative patent judge or the Board shall return to a party any paper presented by the party when the filing of the paper is not authorized by, or is not in compliance with the requirements of, this subpart. Any paper returned will not thereafter be considered in the interference. A party may be permitted to file a corrected paper under such conditions as may be deemed appropriate by an administrative patent judge or the Board.

* * * * *

22. Section 1.621 is amended by revising paragraph (b) to read as follows:

§ 1.621 Preliminary statement, time for filing, notice of filing.

* * * * *

(b) When a party files a preliminary statement, the party shall also simultaneously file and serve on all opponents in the interference a notice stating that a preliminary statement has been filed. A copy of the preliminary statement need not be served until ordered by the administrative patent judge.

23. Section 1.622 is amended by revising paragraph (b) to read as follows:

§ 1.622 Preliminary statement; who made invention; where invention made.

* * * * *

(b) The preliminary statement shall state whether the invention was made in the United States, a NAFTA country (and, if so, which NAFTA country), a WTO member country (and, if so, which WTO member country), or in a place other than the United States, a NAFTA country, or a WTO member country. If made in a place other than the United States, a NAFTA country, or a WTO member country, the preliminary statement shall state whether the party is entitled to the benefit of 35 U.S.C. 104(a)(2).

24. Section 1.623 is amended by revising the section heading and paragraph (a) introductory text to read as follows:

§ 1.623 Preliminary statement; invention made in United States, a NAFTA country, or a WTO member country.

(a) When the invention was made in the United States, a NAFTA country, or a WTO member country, or a party is entitled to the benefit of 35 U.S.C. 104(a)(2), the preliminary statement

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Part II

Department of Commerce

Patent and Trademark Office

37 CFR Parts 1, 42 and 90

Rules of Practice for Trials Before the Patent Trial and Appeal Board and Judicial Review of Patent Trial and Appeal Board Decisions; Final Rule

DEPARTMENT OF COMMERCE

Patent and Trademark Office

37 CFR Parts 1, 42 and 90

[Docket No. PTO–P–2011–0082]

RIN 0651–AC70

Rules of Practice for Trials Before the Patent Trial and Appeal Board and Judicial Review of Patent Trial and Appeal Board Decisions

AGENCY: United States Patent and Trademark Office, Commerce.

ACTION: Final rule.

SUMMARY: The United States Patent and Trademark Office (Office or USPTO) is revising the rules of practice to implement the provisions of the Leahy-Smith America Invents Act (''AIA'') that provide for trials before the Patent Trial and Appeal Board (Board). This final rule provides a consolidated set of rules relating to Board trial practice for *inter partes* review, post-grant review, the transitional program for covered business method patents, and derivation proceedings. This final rule also provides a consolidated set of rules to implement the provisions of the AIA related to seeking judicial review of Board decisions.

DATES: *Effective Date:* The changes in this final rule take effect on September 16, 2012.

FOR FURTHER INFORMATION CONTACT: Michael P. Tierney, Lead Administrative Patent Judge, Scott R. Boalick, Lead Administrative Patent Judge, Robert A. Clarke, Administrative Patent Judge, Joni Y. Chang, Administrative Patent Judge, Thomas L. Giannetti, Administrative Patent Judge, Board of Patent Appeals and Interferences, by telephone at (571) 272–9797.

SUPPLEMENTARY INFORMATION: *Executive Summary: Purpose:* On September 16, 2011, the AIA was enacted into law (Pub. L. 112–29, 125 Stat. 284 (2011)). The purpose of the AIA and this final rule is to establish a more efficient and streamlined patent system that will improve patent quality and limit unnecessary and counterproductive litigation costs. The preamble of this notice sets forth in detail the procedures by which the Board will conduct trial proceedings. The USPTO is engaged in a transparent process to create a timely, cost-effective alternative to litigation. Moreover, the rulemaking process is designed to ensure the integrity of the trial procedures. *See* 35 U.S.C. 316(b), as amended, and 35 U.S.C. 326(b). This final rule provides a consolidated set of rules relating to Board trial practice for *inter partes* review, post-grant review, the transitional program for covered business method patents, and derivation proceedings. *See* 35 U.S.C. 316(b), as amended, and 35 U.S.C. 326(b).

Summary of Major Provisions: Consistent with sections 3, 6, 7, and 18 of the AIA, this final rule sets forth: (1) The evidentiary standards, procedure, and default times for conducting trial proceedings; (2) the fees for requesting reviews; (3) the procedure for petition and motion practice; (4) the page limits for petitions, motions, oppositions, and replies; (5) the standards and procedures for discovery of relevant evidence, including the procedure for taking and compelling testimony; (6) the sanctions for abuse of discovery, abuse of process, or any other improper use of the proceeding; (7) the procedure for requesting oral hearings; (8) the procedure for requesting rehearing of decisions and filing appeals; (9) the procedure for requesting joinder; and (10) the procedure to make file records available to the public that include the procedures for motions to seal, protective orders for confidential information, and requests to treat settlement as business confidential information.

Costs and Benefits: This rulemaking is *not* economically significant, but is significant, under Executive Order 12866 (Sept. 30, 1993), as amended by Executive Order 13258 (Feb. 26, 2002) and Executive Order 13422 (Jan. 18, 2007).

Background: To implement the changes set forth in sections 3, 6, 7, and 18 of the AIA that are related to administrative trials and judicial review of Board decisions, the Office published the following notices of proposed rulemaking: (1) *Rules of Practice for Trials before the Patent Trial and Appeal Board and Judicial Review of Patent Trial and Appeal Board Decisions,* 77 FR 6879 (Feb. 9, 2012), to provide a consolidated set of rules relating to Board trial practice for *inter partes* review, post-grant review, derivation proceedings, and the transitional program for covered business method patents, and judicial review of Board decisions by adding new parts 42 and 90 including a new subpart A to title 37 of the Code of Federal Regulations (RIN 0651–AC70); (2) *Changes to Implement Inter Partes Review Proceedings,* 77 FR 7041 (Feb. 10, 2012), to provide rules specific to *inter partes* review by adding a new subpart B to 37 CFR part 42 (RIN 0651–AC71); (3) *Changes to Implement Post-Grant Review Proceedings,* 77 FR 7060 (Feb. 10, 2012), to provide rules specific to post-grant review by adding a new subpart C to 37 CFR part 42 (RIN 0651–AC72); (4) *Changes to Implement Transitional Program for Covered Business Method Patents,* 77 FR 7080 (Feb. 10, 2012), to provide rules specific to the transitional program for covered business method patents by adding a new subpart D to 37 CFR part 42 (RIN 0651–AC73); (5) *Transitional Program for Covered Business Method Patents—Definition of Technological Invention,* 77 FR 7095 (Feb. 10, 2012), to add a new rule that sets forth the definition of technological invention for determining whether a patent is for a technological invention solely for purposes of the transitional program for covered business method patents (RIN 0651–AC75); and (6) *Changes to Implement Derivation Proceedings,* 77 FR 7028 (Feb. 10, 2012), to provide rules specific to derivation proceedings by adding a new subpart E to 37 CFR part 42 (RIN 0651–AC74).

Additionally, the Office published a Patent Trial Practice Guide for the proposed rules in the **Federal Register** to provide the public an opportunity to comment. *Practice Guide for Proposed Trial Rules,* 77 FR 6868 (Feb. 9, 2012) (Request for Comments) (''Practice Guide'' or ''Office Patent Trial Practice Guide''). The Office envisions publishing a revised Patent Trial Practice Guide for the final rules. The Office also hosted a series of public educational roadshows, across the country, regarding the proposed rules for the implementation of AIA.

In response to the notices of proposed rulemaking and the Office Patent Trial Practice Guide notice, the Office received 251 submissions offering written comments from intellectual property organizations, businesses, law firms, patent practitioners, and others, including a United States senator who was a principal author of section 18 of the AIA. The comments provided support for, opposition to, and diverse recommendations on the proposed rules. The Office appreciates the thoughtful comments, and has considered and analyzed the comments thoroughly. The Office's responses to the comments are provided in the 228 separate responses based on the topics raised in the 251 comments in the Response to Comments section *infra.*

In light of the comments, the Office has made appropriate modifications to the proposed rules to provide clarity and to take into account the interests of the public, patent owners, patent challengers, and other interested parties, with the statutory requirements and considerations, such as the effect of the regulations on the economy, the

Comment 39: Several comments were directed to clarifying the roles of lead and back-up counsel. One comment contained a proposal for multiple back-up counsel or that additional attorneys receive access to communications.

Response: The comment suggesting multiple back-up counsel is not adopted. Based on the experience of the Office in contested cases, designating one lead counsel and one back-up counsel by each party should result in more efficient and effective case management. The Office expects that lead counsel will, and back-up counsel may, participate in all hearings and conference calls with the Board and will sign all papers submitted in the proceeding. In addition, the role of back-up counsel is to conduct business with the Office on behalf of lead counsel when lead counsel is not available. Actions not conducted before the Office (*e.g.,* taking of depositions) may be conducted by lead or back-up counsel. In response to one comment, for efficiency, it is expected that all communications from the Office will be directed to lead counsel only, unless informed in advance that lead counsel is not available, in which case communications will be with back-up counsel. The Office envisions that lead and back-up counsel may provide access to the electronic records to other practitioners representing their client. It is also envisioned that the access granted to the other practitioners by the lead or back-up counsel may also be rescinded by the lead or back-up counsel without consultation with the Board.

Comment 40: Several comments were directed to disqualifications and withdrawals under § 42.10(d) and (e), and sought clarification of those provisions in the rules.

Response: The comment is noted, but not adopted. It is important in contested proceedings that the public record reflect who is acting as counsel for the parties. Thus, under § 42.10(b) a power of attorney must be filed designating counsel not already of record in the prosecution. The withdrawal provision is applicable to lead counsel, back-up counsel, and all other counsel of record. The Office understands the concerns of one comment regarding the impact of disqualification on the proceedings. Motions to disqualify opposing counsel are disfavored because they cause delay and are sometimes abused. However, should disqualification of a party's counsel be necessary, it is expected that the Board will adopt reasonable measures to protect the party during the transition to new counsel.

Comment 41: One comment requested that situations where counsel would be disqualified pursuant to § 42.10(d) be provided in the MPEP or other material.

Response: The determination whether to disqualify counsel is based on the facts and circumstances of the case, including any response by counsel to the allegation. Some situations, however, are likely to trigger consideration of whether to disqualify a counsel, *e.g.,* egregious misconduct.

Comment 42: One comment suggested that § 42.10(e) requires an attorney to invent circumstances requiring disqualification in order to be permitted to withdraw from representation.

Response: Section 42.10(e) does not require that an attorney be disqualified by the Board in order for the Board to authorize withdrawal. Authorization of attorney withdrawal under § 42.10 would be based on the facts in the case including the time remaining for a response, the ability of new counsel to complete the proceeding competently and timely, and desire of the real party in interest to be represented by new counsel.

Duty of Candor (§ 42.11)

Comment 43: Several comments expressed concern about the scope of the proposed rule in comparison to § 1.56 and §§ 1.555 and 1.933. Specifically, the lack of nexus between the proceeding and individuals with a duty of candor and good faith was questioned.

Response: The comment is adopted. Section 42.11, as adopted, imposes a duty of candor and good faith only if an individual is involved in the proceeding. The scope of the duty is comparable to the obligations toward the tribunal imposed by Rule 11 of the Federal Rules of Civil Procedure.

Comment 44: One comment suggested that it was unclear how violations of the duty by the petitioner would be enforced, particularly when the violation is discovered after the proceeding has terminated.

Response: During the proceeding, an appropriate sanction under § 42.12 may be sought and at any time, including after the final written decision, the matter may be submitted to the Office of Enrollment and Discipline, or an appropriate sanction under § 42.12 may be sought as the Board has both statutory and inherent authority to enforce its protective order. 35 U.S.C. 316(a)(6), as amended, and 35 U.S.C. 326(a)(6).

Sanctions (§ 42.12)

Comment 45: One comment expressed agreement with the Board's using its sanction authority when necessary to curb abuses in proceedings.

Response: The rule provides that the Board may impose a sanction on a party for abusing the proceeding. The Office hopes that such a sanction is rarely needed.

Comment 46: One comment asked for guidance regarding sanctions including how the sanctioned party can appeal such a sanction, the basis for the Office's authority to take patent term from a patent owner (either through a mandatory disclaimer or a judgment) absent a decision on the merits of a petition, the basis for the Office's authority to cause estoppel to attach to a petitioner absent a decision on the merits of a petition, and under what circumstances the Office will impose sanctions. The comment suggested that the Office consider additional sanctions directed to an attorney and/or firm responsible for the misconduct.

Response: Section 42.12 identifies types of misconduct and sanctions for misconduct. Sections 90.1, 90.2 and 90.3 provide for judicial review of decisions by the Patent Trial and Appeal Board. If appropriate, the misconduct may be reported to the Office of Enrollment and Discipline for consideration of a sanction directed to the attorney or firm. Based on past experience, the Board expects such instances to be rare. Authority for the Board's sanctions include 35 U.S.C. 316(a)(6), as amended, and 35 U.S.C. 326(a)(6).

Citation of Authority (§ 42.13)

Comment 47: Several comments were critical of the requirements of citing decisions to the United States Reports and West Reporter System, and suggested that proposed §§ 42.13(a) and (b) be modified as a preference.

Response: The comment is adopted.

Comment 48: A few comments recommended that the requirement for a copy of the cited non-binding authority be eliminated because it is a burden and such an authority is electronically accessible.

Response: This comment is not adopted. Non-binding authority should be used sparingly. The Office cannot assume that a cited non-binding authority is readily accessible electronically. A party who wishes to cite a non-binding authority would already have a copy, and therefore providing the Office with a copy should not be a burden.

Public Availability (§ 42.14)

Comment 49: The comments generally supported proposed § 42.14. One comment, however, suggested special

was anticipated that the Office would be conservative in its grants of discovery due to the time deadline constraints on the proceedings. 154 CONGRESSIONAL RECORD S9988–9, (daily ed. Sept. 27, 2008) (statement of Sen. Kyl); see also 157 Cong. Rec. S1376 (daily ed. Mar. 8, 2011) (incorporating prior 2008 statement). Consistent with the statutory provisions and the legislative history, the Office's rules provide that additional discovery will be ascertained on a case-by-case basis taking into account the special circumstances of the proceeding.

Comment 98: Several comments expressed support for the limited discovery provided for in the proposed rules to avoid the time-consuming and costly discovery battles that are typical of district court litigation. Other comments suggested that discovery was too limited and that a limited number of automatic discovery mechanisms should be put forth in the rules.

Response: The comments are adopted in part. The Office has considered the comments favoring additional automatic discovery against those cautioning against the increased costs and delays associated with broader discovery. 35 U.S.C. 316(a)(5), as amended, and 35 U.S.C. 326(a)(5) require the Office to promulgate standards and procedures for the limited discovery of relevant evidence. 35 U.S.C. 316(a)(6), as amended, and 35 U.S.C. 326(a)(6) require sanctions will be provided for abuse of discovery, which cautions against overly broad discovery. Further, the legislative history states that the Office is anticipated to be conservative in its grants of discovery due to time constraints on the proceedings. On balance, the Office believes that the rules provide the proper standards for discovery where the parties fail to agree amongst themselves as to additional discovery but the Office acknowledges the benefits to providing additional discovery where the parties are in agreement. Accordingly, although the Office does not adopt a specific number of automatic interrogatories, production requests and depositions due to concerns over imposing costs and potential delays upon a party desiring a quicker, lower cost alternative to district court litigation, the Office has rewritten the rules to provide for mandatory initial disclosures and additional discovery where the parties agree to such discovery. Further, additional discovery will be available even in the event that the parties do not agree to the scope of the additional discovery, but such requests will be handled on a case-by-case basis taking into account the specific facts presented.

Comment 99: One comment suggested that the Office promulgate a rule that parties may use conference calls with the Board to resolve disputes regarding their discovery obligations in a timely way.

Response: The comment is adopted in part. A party seeking relief other than by petition is to request relief via a ''motion,'' which can be as simple as arranging a conference call with the Board. § 42.20. The Board envisions handling joint conference calls in an expeditious manner, especially for discovery disputes where the parties need resolution in order to continue development of their respective cases. In particular, the Board expects to resolve many issues via conference calls so as to ensure the timely resolution of the proceeding in a cost-effective manner.

Comment 100: One comment asked for clarification that the Board will uphold all recognized privileges and immunities against disclosure of otherwise discoverable information.

Response: The comment is adopted, although no change to the rule is required. The Board intends to recognize privileges and immunities normally available under the Federal Rules of Evidence. *See* § 42.62.

Comment 101: Several comments requested that patent owners be assured of at least three months of discovery once review is instituted.

Response: The comments are adopted. The rules of practice for *inter partes* review and post-grant review have been modified to provide patent owners with a default time of three months after institution to file a patent owner response. §§ 42.120(b) and 42.220(b). The Office envisions patent owners taking discovery during the three months after institution so that they may prepare and file their patent owner response.

Comment 102: Several comments requested that discovery commence immediately upon institution of the proceedings.

Response: The comments are adopted in part. The Office envisions that a Scheduling Order will be entered concurrent with a decision to institute a proceeding. The Scheduling Order will set due dates for the proceeding taking into account the complexity of the proceeding, but ensuring that the trial is completed within one year of institution. The Office envisions that the Scheduling Order will authorize the patent owner to begin taking routine discovery immediately of the petitioner's witnesses submitting affidavits or declarations. The Office, however, does not incorporate a specific time for the commencement of discovery as there may be certain cases where discovery would be taken prior to commencement, *e.g.,* additional discovery may be authorized prior to institution, where patent owner raises sufficient concerns regarding the petitioner's certification of standing.

Comment 103: Several comments were directed to the sequencing of discovery as between the petitioner and the patent owner. Certain comments spoke favorably of sequencing, whereas another comment opposed sequencing expressing the view that sequencing would unnecessarily complicate proceedings by requiring the Board to police multiple discovery deadlines.

Response: The comments favoring sequencing are adopted in part. The Office Patent Trial Practice Guide contains a proposed Scheduling Order that utilizes sequenced discovery whereby parties can conduct meaningful discovery before they are required to submit their respective motions and oppositions. In choosing to provide sequenced discovery in the proposed Scheduling Order, the Office took into account public commentary identifying the benefits associated with such a procedure. In particular, sequenced discovery allows for convergence of the issues as the trial progresses, and therefore, reduces the burdens on the parties and the Board. Rather than including this in the rules, however, the Office has elected to provide for sequencing in the Scheduling Order so that the parties may, where appropriate, agree to another schedule for discovery.

Comment 104: Several comments suggested that certain information appearing in the Practice Guide for Proposed Trial Rules be incorporated into the rules. Examples of this are the use of conference calls and the concept of sequenced discovery.

Response: The Office Patent Trial Practice Guide is intended to advise the public on the general framework of the regulations. The guide will be updated to reflect the final rules. Providing general guidance in a practice guide, as opposed to the rules themselves, allows for flexibility for efficient case management and is consistent with the considerations identified in 35 U.S.C. 316(b), as amended, and 35 U.S.C. 326(b) that the rules take into account the efficient operation of the Office and the ability to complete the proceedings in a timely manner. The Office expects that the Board will make liberal use of joint conference calls coupled with expeditious decision making on procedural issues to ensure the timely completion of the proceedings.

Comment 105: A comment asked for clarification whether § 1.56 applied during a proceeding.

Response: Proceedings, not being applications for patents, are not subject to § 1.56.

Comment 106: Several comments addressed the interplay between the Office's discovery rules and the statutory estoppel for the proceedings. One comment asked for guidance in the rules as to how such provisions would apply where a party was unable to discover evidence or bring a claim because discovery was limited by the Board or the applicable rules.

Response: 35 U.S.C. 315(e)(1), as amended, and 35 U.S.C. 325(e)(1) provide for petitioner estoppel on issues raised or those that reasonably could have been raised during the proceeding. Where an issue reasonably could not have been raised during a proceeding, no estoppel would occur.

Comment 107: One comment stated that live testimony on inequitable conduct is not to be considered in a trial.

Response: This comment is adopted in part. Inequitable conduct is not a basis for seeking the institution of a trial before the Board. However, 35 U.S.C. 316(a)(6), as amended, and 35 U.S.C. 326(a)(6) provide that the Office may determine and is allowed to prescribe sanctions for misconduct, such as abuse of process, or any other improper use of the proceeding, such as to harass or cause unnecessary delay or an unnecessary increase in the cost of the proceeding.

Comment 108: Several comments requested that the Office provide for the presentation of rebuttal evidence at the oral hearing and provide guidance with respect to the interplay between the rebuttal evidence and hearing under the Administrative Procedures Act.

Response: Generally, rebuttal evidence will be submitted prior to the hearing such that an opponent will have sufficient time to identify and brief admissibility challenges to the rebuttal evidence. As such, hearings typically will reflect an oral argument explaining arguments already made and supported in the existing record. Occasionally, where requested, the Board may order live witness testimony before an administrative patent judge, when it is necessary to resolve discovery disputes or where witness demeanor is particularly important, but it is envisioned that such live testimony will occur prior to the hearing, rather than during the hearing. In an appropriate case, however, where an appropriate showing has been made, live testimony would be taken at a hearing before the Board.

Comment 109: Several comments recommended setting discovery limits by way of rule or in a Standing Order.

Response: The comments are adopted in part. The Office has modified several discovery rules to provide additional default limits on discovery. Further, the Office envisions providing guidance on discovery in the Office's Scheduling Order, which would accompany a decision to institute a proceeding.

Comment 110: Several comments expressed concern that the mechanism for obtaining additional discovery was too cumbersome, requiring authorization from the Board.

Response: The comments are adopted in part. The Office has modified the proposed rule. Section 42.51, as adopted in this final rule, permits parties to agree to certain mandatory initial disclosures, from which the parties would then automatically take discovery of the information identified in the initial disclosures. Additionally, § 42.51, as adopted, allows parties to agree to additional discovery between themselves at any time. By allowing the parties to agree to certain mandatory initial disclosures and additional discovery, the final rule seeks to streamline the discovery process and reduces the need for Board involvement on issues where the parties are in agreement.

Comment 111: Several comments suggested that certain discovery procedures under the Federal Rules of Civil Procedure should be available in the new procedures. In particular, several comments specifically identified Rule 30(b)(6) of the Federal Rules of Civil Procedure.

Response: The comments are adopted in part. Additional discover under § 42.51 which is consistent with 35 U.S.C. 316(a)(5), as amended, and 35 U.S.C. 326(a)(5), is limited. As discussed previously, § 42.51, as adopted in this final rule, allows parties to agree to mandatory initial disclosures and additional discovery, thereby allowing the parties flexibility in their approach to discovery.

Comment 112: Several comments urged the adoption of mandatory initial disclosures, and automatic discovery mechanisms without having to receive authorization from the Board. Other comments however, urged the Office to avoid the use of automatic disclosures as it would complicate the Office's ability to complete the proceedings within one year.

Response: The comments are adopted in part. Additional disclosure under § 42.51 which is consistent with 35 U.S.C. 316(a)(5), as amended, and 35 U.S.C. 326(a)(5), is limited. Accordingly, providing for mandatory initial disclosures in all cases, including those where the parties do not consent to such disclosures, is not consistent with the statute, or with legislative intent in enacting the AIA as a less expensive and more efficient alternative to infringement litigation in Federal court. In any event, § 42.51, as adopted in this final rule, provides a new provision in paragraph (a), which permits mandatory initial disclosures by agreement of the parties. Furthermore, under the revised rule, the parties may agree to additional discovery at any time. Additionally, where only one party seeks mandatory initial disclosure, the party may file a motion requesting such initial disclosures upon a showing that such disclosures are in the interests of justice for *inter partes* review and for good cause in post-grant review. *See* 35 U.S.C. 316(a)(5), as amended, and 35 U.S.C. 326(a)(5).

Comment 113: Several comments expressed concern that in cases involving public use and on-sale issues or objective evidence of non-obviousness, it might be appropriate to require initial disclosures of all relevant documents and all persons with knowledge of the facts and other special discovery procedures.

Response: The comment is adopted in part. The final rule provides a new provision in § 42.51(a), which permits mandatory initial disclosures by agreement of the parties. Section 42.51(a), as adopted in this final rule, further provides that where the parties fail to agree to mandatory initial disclosures, a party may seek such disclosures by motion. The party would first arrange for a conference call with the Board to have the issue resolved in an expeditious manner. A party seeking such initial disclosures would be required to identify the sought-after discovery and explain the need for the disclosures, *e.g.,* why the disclosures were necessary in the interests of justice or good cause, as appropriate, and the party opposing the request would be provided an opportunity to respond. When determining whether to grant such a motion, the Office will take into account the nature of the specific disclosures requested (*e.g.,* public use, on sale, and objective evidence of non-obviousness), as well as the party's access to the information sought (*e.g.,* public versus non-public information). While the Office declines to adopt a *per se* rule regarding disclosures of specific categories of information, as fact patterns will vary from case-to-case, the Office does require the disclosure of