

4 Takeaways From OpenSky's PTAB Sanctions

By **Dani Kass**

Law360 (October 4, 2022, 10:24 PM EDT) -- U.S. Patent and Trademark Office Director Kathi Vidal on Tuesday chided OpenSky Industries for extensive discovery violations and extortion attempts as it challenged a VLSI Technology patent tied to a \$2.2 billion infringement verdict against Intel Corp.

Vidal's precedential decision is in a director review filled with allegations that OpenSky abused the inter partes review process in the hopes of either extorting money from VLSI or Intel, or undermining the verdict, which was issued by a Texas federal jury in March 2021. The Patent Trial and Appeal Board agreed to review the merits of OpenSky's challenge, while Vidal is reviewing the ethical allegations against the newly formed company that appears to exist solely to challenge VLSI's patents.

The director is investigating a second company in tandem with OpenSky, called Patent Quality Assurance LLC, which was likewise formed after the verdict to challenge another patent involved in the litigation. There has not been a decision yet in the PQA case, and it was not addressed Tuesday.

In Vidal's 52-page decision, she said OpenSky may face financial sanctions and barred it from acting as more than a silent observer as the PTAB proceedings continue.

Here's what you need to know about her takedown and what it means going forward.

OpenSky's Misconduct Was Extensive

Vidal's lengthy opinion went step-by-step through a series of issues with OpenSky's conduct, with the company doing little to make itself look better.

She said the company's discovery misconduct, failure to follow her orders, abuse of the IPR process and other unethical conduct each stand on their own as sanctionable, but when put together "warrants sanctions to the fullest extent of my power."

"She really throws the book at them," said McKool Smith principal Nicholas Matich, who served as acting general counsel at the USPTO before Vidal's arrival.

Vidal ordered a wide range of discovery in July from OpenSky, VLSI and Intel — which had been joined as a petitioner — and she warned that sanctions were on the table for those that didn't comply. Those requests included information on when and why OpenSky was formed, who is involved and what communication has been had with other parties.

"OpenSky did not comply with the mandated discovery as ordered," she said. "It produced a minimal number of documents to the other parties and wholly inadequate answers to my interrogatories, and did not produce a privilege log. In contrast, both VLSI and Intel produced responsive documents and detailed privilege logs, as ordered."

OpenSky had lodged a series of arguments that Vidal was going past the boundaries of what she was allowed to request and digging into undisputed areas, along with violating its constitutional rights. She shot down all those arguments.

"It is not appropriate for OpenSky to simply assert that something is undisputed and, on that basis, refuse to comply with my order by failing to produce or log such materials," she said.

Vidal added that OpenSky could have asked her for relief, like additional time, rather than just not complying.

During briefing, OpenSky had tried to pin VLSI as the harasser in the dispute, but Vidal said she's unable to consider that position given the lack of answers provided by OpenSky, and the failure to cite any evidence. For example, when asking foundational questions about OpenSky, the company just said that it has not limited itself to a specific business purpose. It also did not provide information on its funding.

"It is not possible to ascertain whether or not OpenSky merely acts as a shell for other entities seeking to challenge the [patent]," Vidal said. "And as a newly formed entity, seemingly created solely for filing this IPR, OpenSky must have some source of undisclosed funding."

VLSI, for its part, is owned by investment funds with assets managed by Fortress Investment Group LLC. In separate litigation, a Delaware federal judge in August accused VLSI of not providing enough information about its own funding.

Given the lack of answers, Vidal said she'll have to conclude that the answers OpenSky would have had to provide were harmful, also known as drawing adverse inferences.

The length of Vidal's decisions in director reviews has tended to be in the single digits, which attorneys said made the length of this one stand out.

"It clearly shows that Director Vidal takes these allegations of abuse of process and abusive behavior very seriously," said Oblon McClelland Maier & Neustadt LLP partner Christopher Ricciuti. "She and her office spent a significant amount of time going through all of the problematic areas to not only resolve the particular dispute that was in front of her, but also provide a roadmap of what not to do and what to do in the future."

That roadmap includes showing attorneys that if they're asked for additional discovery by the PTAB, such as for establishing real parties in interest, they need to comply, Ricciuti said.

OpenSky's IPR Was Extortionary

One of the key adverse inferences Vidal made is that OpenSky never cared about challenging VLSI's patent; it just wanted to use the IPR as leverage to get money out of either VLSI or Intel, if not both.

"OpenSky's conduct here goes beyond ordinary strategic decisions and reflects a failure to essentially take any steps to develop or otherwise pursue an unpatentability case," she said.

Vidal drew an inference that OpenSky initiated settlement agreements while "double-dealing" by trying to get money out of either company and throw the other under the bus. At one point, OpenSky had sent a proposed deal to VLSI that included delaying responses and manipulating the appearance of expert witnesses.

"Initiating a legal proceeding to deliberately sabotage for money, including offering to violate the duties of candor and good faith owed to the board, amounts to an abuse of process," the director said.

Vidal added that as the IPR continued, OpenSky was not engaged, including "not meaningfully" participating in September oral arguments. OpenSky had also noted that it was "running out of money," which Vidal took to mean it had not budgeted to litigate the IPR to the end.

In a statement Tuesday, VLSI said it "appreciates" the review and finding against OpenSky.

"VLSI further agrees with the director's finding that the 'totality' of that conduct 'evinces a singular focus on using an [America Invents Act] proceeding to extort money,'" VLSI said.

But that doesn't mean it's happy with the entire ruling.

VLSI Still Has to Face the PTAB

While OpenSky is in trouble, the patent challenge will press forward with Intel in the driver's seat.

Vidal has ordered the PTAB panel to reconsider whether OpenSky's petition should have been granted in the first place, but using a higher "compelling merits" standard, compared to its usual "reasonable likelihood of success."

She ordered the panel to issue that decision in two weeks, relying only on information available before institution, which attorneys said may be difficult to do.

"It will be hard to unring the bells rang throughout the trial, put blinders on, and review the institution's decision solely on the basis of the petition," said Sterne Kessler Goldstein & Fox PLLC director Jon Wright.

If the panel says the case has merit, it will proceed with Intel as lead petitioner and OpenSky in a "silent understudy role."

VLSI said it was concerning that Intel gets another shot after it already failed to prove the patent was invalid at the district court, and the PTAB turned away its petitions based on the timing of that district court litigation. VLSI also has a pending request at the PTAB to terminate Intel from the challenges, which OpenSky had largely copied.

"Intel's opportunity to relitigate the validity of VLSI's patent would not have been possible without OpenSky's abusive conduct," the company said Tuesday. "This outcome as to Intel is inconsistent with the letter and spirit of the America Invents Act and, rather than deter future bad actors, creates a loophole that will encourage further abuse of the IPR system."

But Vidal had said there was no evidence that Intel was complicit in the abuse, and that the public interest was served by having the merits reviewed.

McKool Smith's Matich backed VLSI's argument.

"How many times does VLSI have to defeat Intel before it can expect to collect damages?" he asked.

In a footnote, Vidal noted that VLSI was right to bring the extortion to the PTAB, but faulted it for doing so publicly.

"My decision in this case should not be viewed as an endorsement of VLSI's behavior or of others potentially violating confidentiality agreements," she added.

In a statement Tuesday, Intel said it "looks forward to the panel decision on the merits of the petition before institution and to the completion of this IPR proceeding."

There May Be Additional Consequences and Lessons

Vidal also gave OpenSky two weeks to show why it shouldn't have to pay compensatory damages, including attorney fees, and for both OpenSky and VLSI to lay out how any fees should be decided.

Sterne Kessler's Wright noted that despite the tone of the opinion, the sanctions may not end up being that impactful. Any financial relief is still speculative — based on further briefing — and the "demotion" was "fairly meaningless" given that OpenSky wasn't particularly focused on the case's merits, he said.

OpenSky's attorneys — Andrew T. Oliver and Vinay V. Joshi of Amin Turocy & Watson LLP — may have consequences later on though, Vidal suggested.

"From this day forward OpenSky and their counsel are precluded from actively participating in the underlying proceeding," she wrote. "The conduct of the individual attorneys in this case might also rise to the level of an ethical violation under the rules of their respective bars."

Oliver declined to comment Tuesday when Law360 contacted the pair.

Attorneys also noted that Vidal's opinion makes clear that she values the ability to challenge patents at the board, as opposed to her predecessor Andrei Iancu, who thought that power should be narrowed.

That includes Vidal limiting when a patent challenge should be denied based on Iancu-era precedent called *Fintiv*, which takes the timing of co-pending litigation into account, and is what doomed Intel's petitions.

"She views the PTAB's charge to effectively vet patents and make sure the patents that are out there are good patents as important enough to potentially allow Intel to be able to take over this proceeding that they otherwise wouldn't be able to," Oblon McClelland's Ricciuti said. "It's consistent with what she's been doing."

Vidal is now having the board review OpenSky's petition under the same standard she tells it to use for *Fintiv* reviews, Wright added.

"She's keeping her sights very clearly on balancing the interest of the patent owner with the interest of the public in canceling invalid patents," he said.

The patent-in-suit is U.S. Patent No. 7,725,759.

OpenSky is represented by Andrew T. Oliver and Vinay V. Joshi of Amin Turocy & Watson LLP.

Intel is represented by Benjamin Fernandez, David Cavanaugh, Yvonne Lee and Steven Horn of WilmerHale.

VLSI is represented by Babak Redjaian of Irell & Manella LLP, and Kenneth J. Weatherwax, Edward Hsieh and Parham Hendifar of Lowenstein & Weatherwax LLP.

The case is OpenSky Industries LLC et al. v. VLSI Technology LLC, case number IPR2021-01064, before the Patent Trial and Appeal Board.

--Editing by Kelly Duncan.

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