

Vidal Finds More Abuse, Issues New Sanctions In VLSI Case

By Britain Eakin

Law360 (December 22, 2022, 2:49 PM EST) -- U.S. Patent and Trademark Office Director Kathi Vidal on Thursday dismissed OpenSky Industries LLC and Patent Quality Assurance LLC from their respective challenges to two VLSI patents involved in a \$2.2 billion jury verdict against Intel, issuing a fresh round of sanctions in the matter.

Vidal also took aim at VLSI, ordering the patent licensing company's attorneys to explain why they should not be held liable for opposing counsel's attorney fees "for supporting their arguments with misleading statements of law and fact" in a request for rehearing. Both patent challenges will now proceed to final decisions, leaving VLSI's massive jury win on shaky ground should the board find them invalid.

Vidal inserted herself into both cases back in June after VLSI complained that OpenSky and Patent Quality Assurance — which were formed after the verdict came down — were using the inter partes review process as a form of extortion. Vidal ruled in October that OpenSky did indeed abuse the inter partes review system by trying to extract payments from both VLSI and Intel in its challenge to U.S. Patent No. 7,725,759. Vidal elevated Intel, which she joined of her own accord to both the OpenSky and PQA cases, to the lead petitioner and relegated OpenSky to a silent understudy role in that case, but stopped short of terminating OpenSky from the proceeding or ending the case altogether.

On Thursday, she went a step further by dismissing OpenSky from the case, and affirming the PTAB panel's decision that the petition itself "presents a compelling, meritorious challenge."

Vidal said she waited to terminate OpenSky because she needed more time "to determine the appropriate course of action under such extraordinary circumstances." Now that she's had that time, Vidal said the best course of action was to drop OpenSky from the case to ensure it "does not benefit from its abuse of the IPR process."

Vidal had asked the original PTAB panel to review whether the petition should have been granted at all based on a higher standard of proof. After the panel once again decided to institute, Vidal initiated another director review, which resulted in Thursday's decision. Vidal determined the board made no error in its remand decision, saying she agreed with the panel's determination that the merits of the petition are compelling.

VLSI had argued that the compelling merits determination conflicted with the original institution decision, which it said can't be reconciled in light of the different evidentiary standards being applied. In

the original decision, the board found OpenSky was reasonably likely to prevail in showing at least one challenged claim was invalid.

Vidal noted that the compelling merits standard was articulated in guidance she released in June, and so did not exist and could therefore not be applied when the board first granted the IPR. The USPTO director took VLSI to task for suggesting that the evidence the board relied on in its initial institution decision inherently implied that it could not also meet the then-nonexistent higher compelling merits standard.

"That suggestion requires an unjustified leap that I am unwilling to take," the director wrote.

Vidal also rejected VLSI's characterization of the board's first institution decision. VLSI said the board had determined that the patent licensing company raised "reasonable questions" about whether one of the prior art references discloses a key element of the patent.

But Vidal said that was a mischaracterization that omitted the full context of what the board actually wrote, which was that those questions at most identified factual issues to be resolved through trial. The director also noted that the board said VLSI had failed to fully explain its argument.

Vidal went on to list other statements she said were misleading, noting "this is not the first time VLSI has made misleading statements of law or fact in an attempt to mislead me or the board." In a footnote, Vidal said VLSI had also previously mischaracterized Federal Circuit case law.

In light of all that, Vidal ordered VLSI to address within two weeks whether it should be on the hook for attorney fees for the time it took Intel to respond to the rehearing request.

"While I recognize the amount of these fees may not be significant, I want to make clear to the parties and the public that we will hold attorneys and parties accountable for the ethical obligations they owe to the board," the decision said.

In the Patent Quality Assurance matter, Vidal determined that it too abused the IPR system by filing the IPR challenging U.S. Patent No. 7,523,373 and then threatening to try to join the OpenSky IPR "in an attempt to extract payment from VLSI." Vidal also determined that PQA misled the board by saying in its petition that it "exclusively engaged" an expert witness that OpenSky was also relying on in its own challenge to the '373 patent, which the board ultimately denied.

Vidal said PQA later qualified that it was not an exclusive engagement. The USPTO director said she was not suggesting that PQA's behavior was as egregious as OpenSky's but that it nonetheless amounted to an abuse of process.

"Not only are the sanctions imposed proportional to PQA's improper conduct here, but they are necessary to deter such conduct by PQA and others in the future," the decision said.

Intel will now take the lead in the PQA case as well.

Counsel for OpenSky, Intel, PQA and VLSI did not immediately return a request for comment.

McKool Smith principal Nicholas Matich, who is not involved in either PTAB case, told Law360 that he questions how compelling the merits of the petitions actually are after Intel lost its invalidity challenges

in the underlying district court suit, where it got hit with the \$2.18 billion infringement verdict. He noted that the PTAB also denied Intel's own petitions for inter partes review of the patents under the Fintiv policy, a practice that allows the board to deny patents reviews when parallel litigation is at an advanced stage.

The board has always considered the merits of a petition in determining whether to deny it under the Fintiv policy, although the board's application of Fintiv has changed drastically over time, including the weight it gives to the merits. Nonetheless, Matich said Intel is essentially getting a third bite at the apple here.

"Giving defendants multiple chances to challenge a patent is destabilizing to the patent system, because it leaves patent rights in perpetual limbo," Matich said. "This decision will incentivize more shenanigans like what we've seen here and reduce incentives to innovators."

At the time the board denied Intel's petitions back in May 2020, the Fintiv policy had just become precedential. Discretionary denials under the policy exploded shortly thereafter but have steadily declined over time and have slowed to a trickle since Vidal issued her June guidance, part of which stipulated that petitions can't be denied under the Fintiv policy if the merits of a petition are deemed compelling.

Ropes & Gray LLP partner Scott McKeown, who is not involved in the PTAB cases, told Law360 that should factor into how Vidal's decisions Thursday are viewed.

"While many fault the director for allowing Intel to benefit from malfeasance, had the office not rejected Intel's initial filings for discretionary practices now largely eliminated, the patents would have long since been canceled," McKeown said. "This rights that wrong."

The patent-in-suit in the OpenSky case is U.S. Patent No. 7,725,759. The patent-in-suit in the PQA case is U.S. Patent No. 7,523,373.

OpenSky is represented by Matthew K. Blackburn and Evan Boetticher of Sullivan Blackburn Pratt LLC and David Boundy of Potomac Law Group PLLC.

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

PQA is represented by Bruce Slayden, Tecuan Flores and Truman Fenton of Slayden Grubert Beard PLLC.

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

The cases are OpenSky Industries LLC et al. v. VLSI Technology LLC, case number IPR2021-01064, and Patent Quality Assurance LLC v. VLSI Technology LLC, case number IPR2021-01229, before the Patent Trial and Appeal Board.

--Editing by Marygrace Anderson.