



USPTO Director Issues Sua Sponte Precedential Decision Addressing Abuse of IPR Process

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Background: Petitioner OpenSky Industries, LLC's IPR petition challenged claims of a patent owned by VLSI Technology LLC. The petition was largely copied from portions of an IPR petition previously filed by Intel Corporation challenging the same patent claims. Intel had filed its IPR petition after being sued for patent infringement by VLSI. There, the board declined to institute IPR based on the progression of the ongoing litigation between Intel and VLSI, and the overlap between the issues in the litigation and the petition. Ultimately, the trial resulted in a \$2 billion jury verdict against Intel. Shortly thereafter, OpenSky was formed and filed a "copycat" IPR petition. Unlike Intel, OpenSky had not been sued for patent infringement. Intel later joined the proceeding with OpenSky, but OpenSky's conduct prompted Director review on questions relating to an abuse of process.

OpenSky's Conduct: Sanctionable misconduct includes an "abuse of process" (see 37 CFR § 42.12(a)(6)). However, the regulations do not give any additional guidance as to what conduct rises to the level of an "abuse of process." As such, the determination is highly case-specific and fact-based. Here, the Director found OpenSky's conduct to be an abuse of process based on the following case-specific considerations: (1) petitioner's interest in the IPR proceeding, (2) the recent trial damages verdict, (3) the proximity between the formation of petitioner's business and the jury verdict, (4) petitioner's attempts to obtain compensation from parties on both sides of the IPR dispute, (5) petitioner's failure to meaningfully pursue the merits of the patentability challenge, and (6) petitioner's filing of a "copycat" petition.

Board's Analysis: Regarding the first consideration, the Director noted that it is not *per se* improper for a party to petition for IPR if that party is not a defendant in a patent infringement suit. But where a petitioner has not been sued for infringement, and is a non-practicing entity, there may be legitimate questions regarding whether that petition was filed for an improper purpose. Here, OpenSky's actions were at odds with any proper interest, including an interest in preserving the integrity of the patent system. Tellingly, OpenSky failed to comply with the Director's mandated discovery relevant to this factor. For instance, through interrogatories, the Director sought information pertaining to OpenSky's business purpose, whether it believed it would be sued for patent infringement, and its policy reasons for filing an IPR petition. Rather than providing straightforward responses, OpenSky skirted around the call of the interrogatories, providing non-responsive answers.

With respect to the second and third considerations, the recent jury verdict against Intel was substantial, and there was a close proximity between that verdict and OpenSky's formation as a business. OpenSky formed as an entity only seven weeks following the verdict against Intel, and OpenSky filed an IPR petition six weeks thereafter.

Regarding the fourth consideration, OpenSky sought compensation from both Intel and VLSI. While attempts at settlement are typical and often encouraged, it is unusual for one party to solicit compensation from both a joined petitioner and the patent owner. OpenSky's actions underscored its goal to extract money from whatever party was willing to give it, and indicated that OpenSky's interest was not for a legitimate purpose of challenging the patent.

Discussing the fifth consideration, the Director reiterated that OpenSky showed no interest in pursuing a patentability challenge on its merits. The Director pointed to OpenSky's continued efforts at seeking payment from Intel, its failure to request oral argument, and its failure to meaningfully participate in oral hearing at all.

Lastly, OpenSky's "copycat" petition further established that its conduct was an abuse of process. Using a "copycat" petition on its own is not *per se* improper, but taken in conjunction with the other factors and circumstances, that use pointed to an abuse of process. OpenSky's filing not only copied Intel's IPR petition, it also copied Intel's expert declaration. OpenSky never notified the expert nor negotiated for his services, which indicated that OpenSky lacked control over a key witness that could jeopardize the entire case. This factor evidenced OpenSky's goal of filing an IPR with the lowest possible cost in an effort to generate leverage to extract payment.

Based on the foregoing, the Director found that the sum total of OpenSky's actions amounted to sanctionable abuse of process.

Resulting Sanctions: 35 U.S.C. § 316 gives the Director the authority to sanction parties, and determining the type of sanctions that should be imposed is a case-dependent, fact-intensive inquiry. Under 37 CFR § 42.12, there are a number of possible sanctions that the PTAB may impose. Those relevant to the present case and noted by the Director include: (1) an order holding facts to have been established in the proceeding, (2) an order expunging a party from filing a paper, and (3) an order providing for compensatory expenses, including attorney's fees.

For its failure to comply with the Director's discovery mandate and to prevent OpenSky from benefiting from its discovery misconduct, the Director determined that one appropriate sanction was an adverse inference holding disputed facts as established against OpenSky. Other sanctions levied against OpenSky included precluding OpenSky from participating in the underlying IPR proceeding, prohibiting OpenSky from filing further papers into the record or presenting evidence, and ordering OpenSky to show cause as to why it should not be ordered to pay compensatory damages. Due to OpenSky's preclusion, Intel was elevated to the lead petitioner.

Finally, because the Director has an obligation to secure reliable patent rights and remove patents that do not support innovation, the Director declined to terminate the IPR proceeding outright. This IPR will continue only if the PTAB panel, on remand, determines that the unpatentability challenge meets the "compelling-merits" standard as of the time of institution and on the record that then-existed.

Practice Tip: The USPTO will not permit the use of PTAB proceedings to extort money from interested parties. Nor will the USPTO allow conduct that flagrantly disregards discovery mandates and orders. While there is no standing requirement for IPR, entities that have not been sued for infringement should proceed cautiously and think carefully about their motivations before filing a petition. Those entities should also be prepared (financially and otherwise) to fully litigate the proceeding, including retaining an expert. Conversely, patent owners faced with IPR petitions filed by uninterested parties should scrutinize thoroughly the petitioner's motives. Petitioners found to have engaged in improper gamesmanship before the USPTO risk severe sanctions, including removal from the proceeding and the petition being held to a higher standard for institution.

Case: *OpenSky Industries, LLC v. VLSI Technology LLC*, IPR2021-01064, Paper 102 (PTAB Oct. 4, 2022)

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