Nos. 2023-2158, 23-2159

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

VLSI TECHNOLOGY LLC,
Appellant,

v.

OPENSKY INDUSTRIES, LLC,
Cross-Appellant,

INTEL CORPORATION,
Appellee,

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 and Trademark Office,
Patent Trial and Appeal Board in Nos. IPR2021-01064 and IPR2022-00366

BRIEF FOR INTERVENOR—DIRECTOR OF THE UNITED STATES PATENT AND TRADEMARK OFFICE

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REPRESENTATIVE CLAIM

U.S. Patent No. 7,725,759, Claim 1

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 mater 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.

Appx251 (7:66–8:15).

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STATEMENT OF RELATED CASES

Beyond the cases identified in the VLSI's opening brief, Intel's response brief, and OpenSky's opening and responsive brief, the Director is aware of the following case pending before this Court which may affect or be affected by this Court's decision in the pending appeal: *VLSI Technology LLC v. Patent Quality Assurance LLC* (Nos. 2023-2298, 2023-2354).

I. STATEMENT OF JURISDICTION

While this Court has jurisdiction over the merits of the Board's final written decision under 28 U.S.C. § 1295(a)(4)(A), and 35 U.S.C. §§ 141(c), 319, this Court lacks jurisdiction to review disputes that are closely tied to the application of statutes related to the Director's institution decision, which is final and nonappealable under 35 U.S.C. § 314(d). *ESIP Series 2, LLC v. Puzhen Life USA, LLC*, 958 F.3d 1378, 1386 (Fed. Cir. 2020) (citing *Cuozzo Speed Techs., LLC v. Lee*, 579 U.S. 261 (2016), and *Thryv, Inc. v. Click-to-Call Techs., LP*, 590 U.S. 45 (2020)).

II. INTRODUCTION

Intel filed two IPR petitions, relying on declarations by Dr. Bruce Jacob, challenging VLSI's '759 patent claims as unpatentable. In light of parallel district court litigation between Intel and VLSI, the USPTO exercised its discretion to deny those petitions pursuant to the then-recently-issued *Fintiv* decision.

After the district court jury awarded $675 million against Intel, OpenSky essentially refiled Intel's denied IPR petition, including Dr. Jacob's declaration. The Board instituted review. Later, the Board allowed Intel to join OpenSky's IPR trial.

In view of these unique circumstances, the Director *sua sponte* initiated review of the institution decision, and issued an order requiring the parties to provide discovery relating to OpenSky's formation, its relationship to the parties, and its IPR conduct. OpenSky objected to the discovery and inadequately responded to the

Director's order. The Director then issued a decision finding OpenSky's conduct sanctionable for failing to adequately respond to the discovery order and for its misconduct during the IPR proceeding, and sanctioned OpenSky by awarding VLSI compensatory attorney's fees. The IPR trial proceeded in parallel with Director Review, resulting in a final written decision finding all challenged claims of the '759 patent unpatentable.

On appeal, VLSI argues primarily: (i) that the USPTO should have terminated the IPR as a sanction for OpenSky's misconduct; and (ii) that the panel should not have permitted Intel to join the proceedings under VLSI's reading of the AIA.

This Court should reject VLSI's arguments. VLSI's arguments regarding termination and joinder are challenges to USPTO institution decisions that are unreviewable on appeal. Regardless, the Director acted within her discretion in not deinstituting the IPR, and Intel's joinder was permissible.

On cross-appeal, OpenSky argues that: (i) the American Rule prohibits attorney's fees as a sanction without express authorization from Congress; (ii) its actions are immunized from sanction under the *Noerr-Pennington* doctrine; (iii) the fees awarded were not adequately tied to its misconduct; and (iv) the Director lacked authority to order discovery and failed to give adequate notice of the basis for sanctions and an opportunity to respond.

OpenSky's arguments fail too. The American Rule does not apply to sanctions. OpenSky's post-filing actions are beyond the scope of *Noerr-Pennington* protection. The Director applied the correct test to identify the attorney's fees that could be awarded as a compensatory sanction, and provided OpenSky with sufficient notice and opportunity to respond at every step in reaching that determination.

III. Statement of the Issues

The Director intervened to address the following issues:

1) Whether the Director's decision not to deinstitute this IPR is reviewable on appeal; and if so, whether the Director abused her discretion by not reversing institution;

2) Whether a finding that joinder is not time-barred is reviewable on appeal; and if so, whether 35 U.S.C. § 315(b)—stating the one-year time bar "shall not apply" to joinder requests—permits joinder of a petition filed outside that period;

3) Whether 35 U.S.C. § 316(a)(6) is subject to the American Rule;

4) Whether the *Noerr-Pennington* doctrine immunizes OpenSky's post-filing conduct from sanctions for abuse of process;

5) Whether the Director correctly applied the "but for" causation standard for compensatory attorney's fees sanctions;

6) Whether the Director is authorized to conduct discovery in IPRs; and

7) Whether OpenSky was given fair notice and an opportunity to respond to the basis for the sanctions.

IV. Statement of the Case

A. District Court Proceedings between VLSI and Intel.

In 2019, VLSI sued Intel for infringing the ’759 patent, resulting in a jury verdict awarding VLSI $675 million in damages. Appx4799, Appx4802. This Court reversed the infringement verdict. *VLSI Tech. LLC v. Intel Corp.*, 87 F.4th 1332, 1341–45 (Fed. Cir. 2023).

B. USPTO Proceedings

1. Intel’s First IPR Petitions

Within one year of that infringement suit, Intel filed two IPR petitions challenging different claims of the ’759 patent. Appx43. Considering the factors set forth in *Apple Inc. v. Fintiv, Inc.*, IPR2020-00019, Paper 11, 2020 WL 2126495, at *2–3 (PTAB Mar. 20, 2020) (precedential) (“*Fintiv*”), the Board exercised its discretion to deny institution of both petitions based on the parallel district court litigation. *Intel Corp. v. VLSI Tech. LLC*, IPR2020-00498, 2020 WL 4820595, at *2–5 (PTAB August 19, 2020); *Intel Corp. v. VLSI Tech. LLC*, IPR2020-00106, 2020 WL 2201828, at *2–6 (PTAB May 5, 2020).

2. OpenSky’s IPR Petition

In the wake of the district court judgment, OpenSky filed an IPR petition challenging the allegedly infringed claims of the ’759 patent. OpenSky heavily copied from Intel’s denied petitions and reattached the declarations of Intel’s expert witness, Dr. Jacob. OpenSky did so without Dr. Jacob’s knowledge. Appx45.

The Board instituted OpenSky's IPR. The Board determined that VLSI's hearsay objections to OpenSky's reliance on Dr. Jacob's declaration were premature, as there was no indication that Dr. Jacob would not sit for deposition and thereby cure any evidentiary issues. Appx1219–1221. The Board noted that OpenSky was "responsible for producing Dr. Jacob for cross examination," and, if Dr. Jacob participated, "that would allow for a normal discovery process to take place and would require no substantive change to [OpenSky]'s contentions." Appx1220–1221.

3. Intel's Motion for Joinder.

Within one month of the Board's institution of OpenSky's IPR, Intel filed its own petition (containing effectively the same unpatentability challenges as OpenSky's petition) with a motion for joinder. Appx2; Appx4. VLSI opposed, arguing that Board precedent counseled against instituting and joining Intel's petition. Appx14113–14134. VLSI did not argue that Intel's petition was time-barred, instead recognizing that the Board could join time-barred parties. Appx14133.

The Board granted Intel's motion for joinder, reasoning that discretionary denial was not warranted, at least because the denial of Intel's prior IPR petitions was "based on parallel district-court litigation, not on the merits of the petition" (Appx7–9), and "the district-court trial that led to the denial of [Intel's] initial petitions is over and did not resolve the challenges presented" in the petition

(Appx9).[1] Intel agreed to participate as an "understudy" (Appx15–16), and the Board maintained the existing grounds of review and schedule (Appx20).

4. OpenSky's attempts to extract payment from VLSI and Intel.

Before institution, VLSI and OpenSky discussed potential resolution of the IPR. Appx66; Appx10985; Appx10988. They did not reach an agreement before institution.

Following institution—and before Intel's filed joinder motion and petition had been acted upon—OpenSky proposed collaborating with Intel, in exchange for which Intel would pay OpenSky "success fees based on percentages of loss avoided by Intel." Appx7382–7384; Appx66–67. Intel rejected that offer. Appx1684; Appx7380.

OpenSky then returned to VLSI. Appx68. By that time, another entity, Patent Quality Assurance LLC ("PQA"),[2] had also moved to join the underlying IPR of the '759 patent. *Id.* Ultimately, OpenSky proposed terms that effectively offered to sabotage its IPR in exchange for money:

[1] The invalidity challenges that Intel did present were unsuccessful. *VLSI Tech. LLC v. Intel Corp.*, No. 6:21-CV-057-ADA, 2022 WL 1477725, at *9–*10 (W.D. Tex. May 10, 2022), *aff'd in part*, *rev'd in part and remanded*, 87 F.4th 1332 (Fed. Cir. 2023).

[2] *See Patent Quality Assurance LLC v. VLSI Tech. LLC*, IPR2022-00480. The Board ultimately dismissed PQA's IPR petition and joinder motion relating to the '759 patent (pursuant to PQA's own motion).

- Parties agree to work together to secure dismissal or defeat of the petition.

- OpenSky agrees not to negotiate with Intel or PQA

- VLSI takes full three months to oppose PQA joinder

- VLSI files its patent owner response

- OpenSky refuses to pay expert for time at deposition so expert does not appear for deposition

- The day after VLSI files response, OpenSky and VLSI file motion to dismiss

Appx68 (reproducing an excerpt of Ex. 2055, 1–2 (Appx10355–10356)); *see generally* Appx68–69. OpenSky also agreed that if PQA's motion for joinder was granted, "OpenSky would not produce its expert, on whom PQA relied, for deposition, creating 'a potentially fatal evidentiary omission that PQA would be unable to remedy.'" Appx69 (quoting Ex. 2055, at 1 (Appx10355)). OpenSky's email did not detail specific amounts, but made clear that OpenSky would receive two payments in return for undermining its own proceeding. Appx69. VLSI reported this offer to the Board, and there were no further negotiations between them. Appx69.

After Intel's joinder, OpenSky returned to Intel. *See generally* Appx70–71. OpenSky indicated that it had "certain budgetary constraints" which might lead it to "rely on its initial filings and [] decide not to depose VLSI's expert or file a reply brief." Appx7391. OpenSky also "requested compensation for its prior work in the IPR and requested additional remuneration as well." *Id.* Intel rebuffed the offer, "but offered to jointly approach the Board to request that Intel become an active participant in the IPR proceedings [rather than maintain its understudy role] in light of OpenSky's resource constraints." *Id.* OpenSky indicated that it "was opposed to any such request from Intel without compensation for OpenSky." *Id.* Eventually, OpenSky "offered to let Intel write the reply [brief] in exchange for remuneration and indemnity against any lawsuit brought by VLSI against OpenSky based on the IPR proceeding." Appx7402. Intel again refused, but offered to provide a draft reply brief and reply expert declaration for OpenSky's use. *Id.* OpenSky accepted. Appx7407.

5. Director Review

Citing "novel issues of law and policy" and issues of "particular importance to the Office and the patent community," the Director ordered *sua sponte* "review of the Board's Institution Decision" on June 7, 2022. Appx1448–1450. The Director initiated a similar review of the Board's institution decision in PQA's IPR challenging another of VLSI's patents PQA also filed a second IPR petition challenging another VLSI patent (U.S. Patent No. 7,523,373).[3] *Patent Quality Assurance LLC v. VLSI Tech. LLC*, IPR2021-01229, Paper 31 (June 7, 2022).

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[3] Although the *PQA* Director Review proceedings and decision are not on appeal here, the Director reviewed similar issues and, at times, referenced the *PQA* review during the underlying Director Review.

a) Scheduling Order

The Director issued a Scheduling Order. Appx24–36. The Order explained that while the Board's institution decision on OpenSky's petition comported with existing USPTO discretionary policies, left unexplored were "questions of first impression" regarding institution based on "allegations of abuse of process or conduct that otherwise thwarts, as opposed to advances, the goals of the Office and/or the AIA." Appx30–32. The Director ordered briefing (including from any interested amici) on questions relating to, *inter alia*, whether the evidence demonstrated an abuse of process. Appx31–32. The Director ordered that the parties exchange written discovery relating to those questions. Appx32–34. The Director also ordered the parties to produce responsive documents in seven discrete categories. Appx32–33. The Order warned parties to maintain a privilege log of any withheld evidence and that any attempt to withhold responsive evidence could "be sanctionable." Appx32–33.

The Director ordered similar mandated discovery in her review of the *PQA* institution decision, and PQA objected. Appx1570–1571. The Director then issued an order in both reviews reaffirming the discovery. Appx1569–1573. Noting PQA's objections, the Director: (i) explained that complying with the Order would not constitute waiver of objections; (ii) reiterated the availability to log documents withheld based upon legitimate privileges; and (iii) reminded the parties that they were "required to comply with the . . . Mandated Discovery provisions" and that "failure to comply . . . may be sanctionable," citing 37 C.F.R. § 42.12. Appx1571–1572. The Director specifically explained that "sanctions may include '[a]n order holding facts to have been established in the proceeding.'" Appx1572 (quoting 37 C.F.R. § 42.12). For its part, OpenSky did not object to the mandated discovery until the day that discovery was due. Appx1567 (setting August 4, 2022 due date); Appx1578–1586 (OpenSky's objections, dated August 4, 2022).

b) October 2022 Decision imposes sanctions, remands for the Board to determine whether OpenSky's petition presented compelling merits, and orders OpenSky to show cause why it should not pay a monetary sanction.

The Director issued her decision on October 4, 2022. Appx38–89. The Director rejected OpenSky's objections to the mandated discovery (Appx53–55) and found that OpenSky failed to comply, both by refusing to produce under seal or log internal documents, and by failing to adequately respond to interrogatories (Appx56–62). The Director then determined that OpenSky's conduct in the proceeding was also sanctionable. Appx65–81. The Director thus identified both OpenSky's discovery misconduct and post-institution conduct as sanctionable. *See* Appx56–62; Appx66–81.

The Director sanctioned OpenSky for its discovery misconduct by determining that disputed facts would be taken as established against it. Appx62–65. With respect to its post-institution conduct, the Director ordered OpenSky to show cause why it should not pay compensatory expenses, including attorney fees, to VLSI (Appx81–82, Appx88), and also relegated OpenSky to the understudy role, and elevated Intel to the active party (Appx84, Appx88).

The Director also considered VLSI's argument that the remedy for OpenSky's abuse of the IPR proceeding should be deinstitution. Appx82 (citing argument at Appx1788, Appx1791). More specifically, VLSI argued that OpenSky's specific conduct in the IPR—including extortionate demands of both OpenSky and Intel, violating the duty of candor and good faith before the USPTO, and failure to comply with the Director's Scheduling Order—required the Director to terminate the IPRs because anything less would "motivate future opportunistic petitioners to strategically file abusive 'lottery ticket petitions.'" Appx1781–1792.

In response, the Director analyzed whether to deinstitute the underlying IPR, in view of the policy goals of the USPTO, the AIA, and the patent system broadly. Appx84–87. The Director reasoned that the decision whether to deinstitute must both "advance the goals of securing reliable patent rights and [the benefits of] removing patents that do not support innovation." Appx83. The Director determined that she would only allow OpenSky's IPR to continue if its petition met a "compelling merits" threshold. Appx84–87. The Director explained that this was "a higher standard than the reasonable likelihood required for the institution of an IPR under 35 U.S.C. § 314(a)" because it is only met "if it is highly likely that the petitioner would prevail with respect to at least one challenged claim." Appx86. The Director remanded the compelling-merits issue for the panel to address in the first instance, with instructions to deinstitute it not met. Appx86-87.

c) The Board finds compelling merits, and the Director affirms that determination on *sua sponte* Director Review.

Following the Director's remand, the Board determined that OpenSky's petition presented compelling merits. Appx90–100. The Director initiated *sua sponte* Director Review of the remand decision, and agreed with the Board that OpenSky's petition presented compelling merits. Appx119–123. Accordingly, the Director did not deinstitute the proceeding. The Director, however, dismissed OpenSky from the proceeding "to ensure that OpenSky does not benefit from its abuse of the IPR process." Appx116–117.

d) The Director sanctions OpenSky for its misconduct.

The Director had similarly dismissed PQA from its IPR. Following PQA's arguments that its dismissal deprived the USPTO of jurisdiction to impose sanctions, the Director restored PQA to the proceeding to ensure her ability to impose sanctions. The Director restored OpenSky to the underlying proceeding here as well. Appx128.

The Director determined that OpenSky should be ordered to pay compensatory attorney's fees to VLSI as a sanction for its misconduct, after addressing OpenSky's arguments. Appx128–141. First, the Director rejected OpenSky's characterization of the order as "fee shifting"; the Director was sanctioning OpenSky. Appx128–130. The Director determined that she had express statutory and regulatory authority to impose such a sanction. Appx129–30 (citing 35 U.S.C. § 316(a)(6) and 37 C.F.R. § 42.12). Second, the Director rejected OpenSky's argument that it was denied due process. Appx130–132. The Director determined she put OpenSky on notice that she would be "investigating VLSI's claims of abuse of process by OpenSky." Appx131. OpenSky then had the opportunity to produce evidence and provide briefing on the issue. Appx131–132. Third, the Director determined that it was proper to apply adverse inferences to OpenSky's conduct based on its failure to comply with the mandated discovery, particularly because she had specifically warned that failure to comply could lead to adverse inferences. Appx132–133.

Next, the Director rejected OpenSky's argument that its conduct did not harm VLSI. In particular, OpenSky argued that because the petition was not "objectively baseless," it should not be sanctioned. Appx133–136. The Director clarified that that she was "not sanctioning OpenSky based on whether it filed a meritorious Petition," but "because of the manner in which OpenSky conducted itself after the Petition was filed." Appx134. The Director explained that the sanctioned misconduct was OpenSky's "offering to undermine the IPR . . . and failing to comply with Mandated

Discovery," and that the misconduct harmed VLSI. Appx134–135. The Director explained that "even if [the Director] were to set aside OpenSky's improper motive in filing its petition to institute this IPR, [she] would reach the same decision based solely on its misconduct revealed and committed in the course of [her] review of that institution decision." Appx135–136. The Director determined that OpenSky's misconduct occurred "throughout the proceeding." Appx137–138.

Accordingly, the Director sanctioned OpenSky by compensating VLSI "for the reasonable attorney fees incurred in addressing the issue of misconduct during the proceeding, and for the Director review process in its entirety." Appx138. Following briefing from the parties, the Director ordered OpenSky to pay VLSI $413,264.15 as a sanction for misconduct. Appx237; *see generally* Appx209–237.

6. Final Written Decision

The PTAB separately issued a Final Written Decision determining that all challenged claims of the '759 patent would have been obvious over various combinations of prior art. Appx163–208.

V. Summary of the Argument

The USPTO's handling of these IPRs charted a permissible course that is not reviewable in significant part, and was otherwise within the Director's discretion and authority and supported by substantial evidence.

As it argued in the Director Review below, VLSI's argues here that OpenSky's conduct in filing and pursuing this IPR in an attempt to extort money from VLSI was so egregious as to require deinstitution as the only permissible sanction. This argument fails on two levels. First, the sanction argument is judicially unreviewable under 35 U.S.C. § 314(d), as it ultimately seeks to reverse an institution decision. This Court has consistently held that challenges entwined with institution decisions are not reviewable. In this case, as part of her sanctions determination, the Director determined it would not be appropriate to deinstitute the IPR if the petition showed compelling merits, which both the underlying Board panel and Director found it did. Because this was fundamentally a decision regarding institution, it is "final and nonappealable" by statute, and not subject to this Court's review. Second, even if the sanction argument is considered, the Director had and articulated a permissible explanation for her decision not to deinstitute. This Court should not disturb that permissible exercise of statutory discretion. Furthermore, the Director had broad discretion to impose the sanctions that she deemed appropriate under the circumstances, and chose her sanctions after balancing competing interests. VLSI's dissatisfaction with the sanction imposed—over $400,000, measured by VLSI's attorney fees—misreads 37 C.F.R. § 42.11(d)(4), which caps the severity of sanctions, rather than requiring a particular sanction.

VLSI next challenges Intel's joinder petition, arguing that it was time-barred under 35 U.S.C. § 315(b). This challenge to the timeliness of Intel's joinder petition is unreviewable. *See, e.g.*, *Fitbit, Inc. v. Valencell, Inc.*, 964 F.3d 1112, 1115 (Fed. Cir. 2020). If considered, VLSI's strained reading of § 315(b)—that § 315(b)'s exception to the one-year time bar applies only to *requests* for joinder and not to the underlying petition—is contrary the plain language of § 315(b) that exempts the petition from the time bar.

OpenSky, for its part, argues that 35 U.S.C. § 316(a)(6) lacks the express language required to displace the American Rule and allow an award of attorney's fees. The American Rule presumption applies to fee-shifting statutes; it does not apply to sanctions authorized by express statutory power to deter misconduct in the course of administrative proceedings.

Second, OpenSky also argues that the *Noerr-Pennington* doctrine immunizes all conduct related to filing a petition for government action from sanctions for abuse or misconduct. The Director's attorney's fees sanction was permissibly based solely on post-filing misconduct, and the settlement discussions at issue were sufficiently tainted by OpenSky's misconduct that they do not constitute protected activity.

Third, OpenSky argues that the Director did not apply the correct "but for" causation standard to determine which of VLSI's attorney's fees could be subject to reimbursement as a sanction. The record demonstrates that the Director correctly applied a "but for" rationale in setting the sanction amount and adequately explained the basis for that amount.

Fourth, OpenSky argues that the Director lacked authority to order discovery in aid of her review, and failed to provide adequate notice and opportunity to respond to the basis for the misconduct investigation and sanctions award. The discovery here is consistent with USPTO rules promulgated pursuant to express statutory authority. The record demonstrates that the Director gave ample notice of both the possible bases for sanctions and the sanctions that might be applied, while providing repeated opportunities for OpenSky to respond through discovery and multiple rounds of briefing.

VI. STANDARD OF REVIEW

Institution decisions and reconsideration thereof are not judicially reviewable. 35 U.S.C. § 314(d). The Court reviews USPTO sanctions decisions for abuse of discretion. *Apple Inc. v. Voip-Pal.com, Inc.*, 976 F.3d 1316, 1322 (Fed. Cir. 2020). The Director or Board abuses its discretion if the sanction "(1) is clearly unreasonable, arbitrary, or fanciful; (2) is based on an erroneous conclusion of law; (3) rests on clearly erroneous fact findings; or (4) involves a record that contains no evidence on which the Board could rationally base its decision." *Id.* at 1322–23 (quoting *Abrutyn v. Giovanniello*, 15 F.3d 1048, 1050–51 (Fed. Cir. 1994)). The Court may not "substitute its judgment for that of the agency." *Citizens to Pres.*

Overton Park, Inc. v. Volpe, 401 U.S. 402, 416 (1971). In reviewing USPTO decision-making, the Court does not require "perfect explanations," *In re NuVasive, Inc.*, 842 F.3d 1376, 1382 (Fed. Cir. 2016), but must uphold the agency's decision—even of "less than ideal clarity"—"if the agency's path may reasonably be discerned," *Bowman Transp., Inc. v. Arkansas-Best Freight Sys., Inc.*, 419 U.S. 281, 286 (1974).

VII. ARGUMENT

A. The Director's decision not to deinstitute is unreviewable and, in any event, was not an abuse of her discretion.

1. § 314(d) bars review of the Director's decision not to de-institute as a sanction.

The Director reviewed the Board's institution decision and elected not to deinstitute. VLSI contends that the Director was required to reach a different result in light of the sanctionable misconduct the Director identified. VLSI Br. 32. But the Director's decision whether to institute an IPR is "final and nonappealable." 35 U.S.C. § 314(d); *see also Cuozzo*, 579 U.S. at 271–73. When the Director or Board reconsiders the institution decision, the reconsideration decision is "fairly characterized as a decision whether to institute proceedings," and thus is also unreviewable. *Medtronic, Inc. v. Robert Bosch Healthcare Sys., Inc.*, 839 F.3d 1382, 1384–85 (Fed. Cir. 2016); *see also Uniloc 2017 LLC v. Facebook Inc.*, 989 F.3d

1018, 1026 (Fed. Cir. 2021) (noting that a challenge to refusal to terminate is equivalent to a challenge to institution and thus unreviewable).

VLSI does not dispute these principles, contending instead that it does not challenge the decision whether to institute, but rather the denial of the sanction of termination. VLSI Br. 47–49. VLSI states that in addition to asking the Director to terminate the IPR, VLSI also requested that she "vacate the decision instituting" it. *Id.* 49 n.9 (citing Appx1788). But while VLSI contends that section 314(d) "at most" bars review regarding the request for vacatur, it does not explain why the analysis should differ for a request to terminate; both are requests for the Director to exercise her discretion to deinstitute OpenSky's IPR. *Medtronic*, 839 F.3d at 1383 ("The Board's vacatur of its institution decisions and termination of the proceedings constitute decisions whether to institute inter partes review and are therefore 'final and nonappealable' under § 314(d)."). VLSI does not—and cannot—dispute that if the Director performed the exact same analysis and decided not to deinstitute *without* regard to sanctions, the Director's decision would be unreviewable. Put differently, VLSI does not explain how the sanctions framing changes the nature of the Director's discretionary institution decision. *See Apple Inc. v. Vidal*, 63 F.4th 1, 13 (Fed. Cir. 2023) (finding instructions to the Board unreviewable where same reasoning applied by the Director would be unreviewable).

VLSI contends that this Court reviews denials of sanctions. VLSI Br. 47 (citing *Apple Inc. v. Voip-Pal.com, Inc.*, 976 F.3d at 1323–24). But in *Voip-Pal.com*, this Court reviewed whether the Board could impose a sanction not specifically enumerated in 37 C.F.R. § 42.12, and the conduct at issue had no relation to the institution decision. 976 F.3d at 1322–24. Thus, the conduct was reviewable separate and apart from the institution decision.

To be sure, this Court has left open the possibility that a "pure" sanctions decision may be reviewable as distinct from an institution decision, but any such exception is inapplicable when the sanctions decision is entwined with considerations relevant to institution. *See Atlanta Gas Light Co. v. Bennett Regul. Guards, Inc.*, 33 F.4th 1348, 1352-54 (Fed. Cir. 2022). Here, the sanctions determination was inextricably linked to the institution decision by virtue of the Director's determination that the appropriate sanction should focus on the strength of the petition's merits. Appx84–87.

VLSI also, in passing, contends that vacatur is warranted if the Director "failed to appreciate that" her authority encompassed termination. VLSI Br. 49. The Director did not fail to appreciate her authority. Appx84 (Director noting that she was addressing the issue of "whether to terminate the proceeding" in reconsidering the Board's decision to institute).

2. If reviewable, the Director did not abuse her discretion in declining to deinstitute.

Even if the Director's decision not to deinstitute is reviewable as a pure sanctions decision, the Director did not abuse her discretion in declining to deinstitute. VLSI Br. 30–43.

a) The Director has broad discretion both in fashioning sanctions and evaluating institution.

USPTO regulations provide that the decisionmaker "may impose a sanction" for misconduct that violates its rules. 37 C.F.R. § 42.12(a)(1); *ClearOne, Inc. v. Shure Acquisition Holdings, Inc.*, 35 F.4th 1345, 1351 (Fed. Cir. 2022). The regulations do not mandate particular sanctions for particular misconduct, reflecting the decisionmaker's broad flexibility to order a suitable remedy that comports with the statutory scheme. *See generally Panhandle E. Pipe Line Co. v. FERC*, 777 F.2d 739, 746 (D.C. Cir. 1985) ("[T]he breadth of agency discretion is, if anything, at [its] zenith when the action assailed relates primarily . . . to the fashioning of . . . sanctions . . . ."). The Board "may determine a proper course of conduct in a proceeding for any situation not specifically covered by" the regulations. 37 C.F.R. § 42.5(a). Thus, assuming deinstitution as a sanction is reviewable despite § 314(d), VLSI is still challenging a discretionary decision in a context (sanctions) where agencies are afforded separate, significant discretion.

b) The Director permissibly chose not to deinstitute.

Viewed against this backdrop, the Director's decision not to reverse institution should be left undisturbed as a permissible exercise of discretion. The Director weighed the interests of patent owners, the public, and the USPTO, and the aims of the AIA. Appx81–87. The Director reasoned that her decision "must advance the goals of securing reliable patent rights and removing patents that do not support innovation." Appx83. The Director balanced these competing policy concerns by requiring the petition to present compelling merits to avoid deinstitution. Appx84–86. When the Board determined that the petition met that standard (Appx93–100), the Director initiated *sua sponte* Director Review, permitted further briefing by both VLSI and Intel (Appx2659), and set out detailed analysis explaining why she agreed with the Board (Appx119–123).

While the current Acting Director would not have similarly decided this case, particularly in view of the fact that OpenSky had engaged in serious misconduct and the fact that the joined party was otherwise time barred and had prior IPR petitions denied, VLSI does not identify any statute or regulation *mandating* the Director to reverse institution. VLSI Br. 30–32. Nor could it. No statute or regulation compels a particular institution outcome or sanction, both being highly deferential decisions committed to the Director's discretion. *ClearOne*, 35 F.4th at 1351. Had the then-

Director deinstituted the proceeding, the USPTO would similarly argue that the decision is unreviewable and, if reviewable, permissible.

Nevertheless, VLSI contends that (i) the Director improperly relied on the compelling merits standard in evaluating institution; (ii) the Director's decision was inconsistent with statute and regulation; and (iii) the Director's decision departed from agency practice.

c) VLSI's arguments for deinstitution lack merit.

(1) Use of the "compelling merits" test was permissible.

VLSI asserts the Director did not adequately explain her choice to apply the "compelling merits" standard from the USPTO's 2022 Memorandum on discretionary denials[4] in the context of misconduct. VLSI Br. 33. However, the Director explained that evaluating the unpatentability showing for compelling merits here "balances the interests of patent owners . . . in reliable patent rights, with the public interest in canceling invalid patents, clearing the path for future innovation, and removing the tax on society caused by the litigation and licensing of invalid

[4] Rescinded Interim Procedure for Discretionary Denials in AIA Post-Grant Proceedings with Parallel District Court Litigation (June 21, 2022), https://www.uspto.gov/sites/default/files/documents/interim_proc_discretionary_denials_aia_parallel_district_court_litigation_memo_20220621_.pdf. Though in effect at the time of the decisions on appeal, the 2022 Memorandum was prospectively rescinded on February 28, 2025. https://www.uspto.gov/sites/default/files/documents/guidance_memo_on_interim_procedure_recission_20250324.pdf.

patents." Appx42. The Director has wide discretion in how to consider whether or not to institute a proceeding. *See Cuozzo*, 579 U.S. at 273–75.

VLSI also argues that "the Director inverted the test she professed to apply" because the 2022 Memorandum indicates that institution still "may" be denied where a petitioner abuses the process. VLSI Br. 34 (citing 2022 Memorandum 4, 9). VLSI misunderstands the Director's analysis. The Director did not formally apply the 2022 Memorandum; there was no *Fintiv* analysis here. Instead, the Director drew on the compelling merits concept articulated in the 2022 Memorandum and adapted it to the different considerations applicable here. Appx41–42; Appx84–87. Whatever role compelling merits played in another context does not speak to its use here.

The cases cited (VLSI Br. 34) are thus inapposite. *Fred Beverages, Inc. v. Fred's Cap. Mgmt. Co.* involved the TTAB taking action unsupported by any "stated rule" or "established practice." 605 F.3d 963, 966 (Fed. Cir. 2010). *SEC v. Chenery Corp.*, 318 U.S. 80, 89 (1943), is similarly beside the point because the Director's reasoning and analysis are consistent with the compelling merits standard and support her decision.

Nor did the Director "categorically declare[] compelling merits a reason to proceed," as argued (VLSI Br. 34), because the Director made no such broad pronouncement. Rather, the Director made a case-specific determination that the strength of PQA's petition supported permitting the IPR to move forward in view of competing interests implicated by the institution issue here. Appx83-87.

(2) The USPTO properly considered Dr. Jacob's declaration.

VLSI contends that the Board and the Director's compelling-merits analysis improperly relied on Dr. Jacob's declaration from Intel's IPR, which VLSI alleges was inadmissible hearsay. VLSI Br. 38–43.

VLSI's premise—that the institution decision may not consider hearsay evidence—is incorrect. USPTO regulations provide that admissibility of the petitioner's evidence is only evaluated *after* "the institution of the trial." 37 C.F.R. § 42.64(b)(1). Thus, the Board has rejected pre-institution hearsay arguments as "premature," *Intel Corp. v. Qualcomm Inc.*, IPR2018-01429, 2019 WL 650549, at *5 (PTAB Feb. 15, 2019); *Kroger Co. v. Healthy Fiber LLC*, IPR2018-00824, 2018 WL 4562896, at *4–5 (PTAB Sept. 21, 2018) (same); *Valve Corp. v. Ironburg Inventions Ltd.*, IPR2016-00949, 2016 WL 6595027 (PTAB Sept. 26, 2016) (same), or as not "persuasive at this stage of the proceeding," *GoPro, Inc. v. Contour, LLC*, IPR2015-01080, 2015 WL 6684649 (PTAB Oct. 28, 2015); *GoPro, Inc. v. Contour, LLC*, IPR2015-01078, 2015 WL 6681225 (PTAB Oct. 28, 2015) (same). As the Board noted in *Kroger*, a petitioner generally does not receive the opportunity to respond to a patent owner's preliminary response, and thus has not had the opportunity to explain why any evidence would be admissible or cure any issues. *Kroger*, 2018 WL 4562896, at *5.

Standard Board practice is consistent with district court practice, which may consider hearsay evidence in evaluating a motion for summary judgment if the evidence "could be presented in an admissible form at trial." *Fraser v. Goodale*, 342 F.3d 1032, 1037 (9th Cir. 2003); *O'Banion v. Select Portfolio Servs., Inc.*, No. 1:09-cv-249, 2012 WL 4793442, at *5 (D. Idaho Aug. 22, 2012). The Third Circuit determined that the district court could consider hearsay witness affidavits in evaluating a motion for summary judgment where there was "no indication that [the underlying witnesses] would be unavailable to testify at trial." *J.F. Feeser, Inc. v. Serv-A-Portion, Inc.*, 909 F.2d 1524, 1542–43 (3d Cir. 1990).

The Board followed this practice here. In its institution decision, the Board noted that VLSI had produced no evidence that Dr. Jacob would be unwilling to testify, or that anything would preclude Dr. Jacob from testifying, which supported considering Dr. Jacob's declaration. Appx1219–1221. The Board indicated that if OpenSky were unable to produce Dr. Jacob for cross-examination, however, the result may be different at the time of final written decision. Appx1220–1221. VLSI argues that Dr. Jacob's declaration should not have been considered in the compelling merits determination, but that determination was wrapped up in the institution question. The Director's remand to evaluate compelling merits did not disturb the Board's institution stage decision on VLSI's hearsay objection. Appx86-87. After the Board appropriately considered Dr. Jacob's declaration in its compelling merits analysis, the Director then affirmed the panel's consideration of the evidence in that analysis. Appx122. Ultimately, Dr. Jacob later reaffirmed his prior testimony and was subject to cross-examination, and the Board rejected VLSI's motion to exclude Dr. Jacob's declarations in its final written decision. Appx202–205.

VLSI's cited decisions are distinguishable. The circuit decisions reviewed exclusion of declarations from trial, not at a preliminary stage. *Wilson v. Wexford Health Sources, Inc.*, 932 F.3d 513, 522 (7th Cir. 2019); *HTC Corp. v. Telefonaktiebolaget LM Ericsson*, 12 F.4th 476, 489 (5th Cir. 2021). The Board decisions generally excluded evidence post-institution, in the final written decision. *ABS Global, Inc. v. XY, LLC*, IPR2018-01224, Paper 28, at 2 (PTAB Dec. 9, 2018); *Unified Patents Inc. v. Sound View Innovations, LLC*, IPR2018-00599, Paper 50, at 2 (PTAB Sept. 9, 2019).

VLSI contends that the Director's explanation that "the Board regularly considers sworn declarations in lieu of live testimony" is inadequate. VLSI Br. 41 (quoting Appx122). The Director simply confirmed that the Board's treatment of Dr. Jacob's declaration conformed with existing practice. As one of the Board decisions cited by the Director explains, the "historical practice" of relying on declarations, rather than live testimony, "is a key feature of our streamlined administrative process." *Grünenthal Gmbh v. Antecip Bioventures II LLC*, PGR2018-00062, Paper 32 at 15 (PTAB Oct. 29, 2019). Indeed, evidentiary objections to evidence submitted during the institution stage are typically not even considered until after the trial is instituted. 37 C.F.R. § 42.64(b)(1) ("Any objection to evidence submitted during a preliminary proceeding must be filed within ten business days of the institution of the trial."). VLSI's argument does not meaningfully address the Board's established practice of relying on hearsay at the institution stage.[5]

(3) The Director's decision was consistent with the relevant statutes and regulations.

VLSI contends that the Director ignored questions that 37 C.F.R. § 42.11(d)(4) and 35 U.S.C. § 316(a)(6) "require" the Director to "answer." VLSI Br. 34–36. Neither requires a particular analysis. Section 42.11(d)(4) *limits* sanctions "to what suffices to deter repetition . . . or comparable conduct," but does not compel how to achieve those results. Section 316(a)(6) requires the Director to promulgate regulations "prescribing sanctions," which has occurred. *E.g.*, 37 C.F.R. § 42.12. Further, contrary to VLSI's argument, the Director considered concerns like

[5] VLSI did not make its argument based in 37 C.F.R. § 42.51 (Br. 41–42) before the USPTO, either in its preliminary response (Appx1113–15) or its briefing to the Director on compelling merits (Appx2705–07). That argument is therefore forfeited. In any event, the cited provision does not prohibit additional examination beyond "affidavit testimony prepared for the proceeding."

deterrence and impact on patent owners. Appx84–87. While the current Acting Director would not have taken this approach, the then-Director permissibly considered how permitting a petition whose merits surpass the statutory institution threshold to proceed appropriately balances those and other implicated interests, including Congressional intent in crafting the AIA. The cases cited (VLSI Br. 35–36) are therefore inapposite.

The sanctions regulations and § 314 give the Director flexibility to permit an IPR to proceed while sanctioning a party to deter repeated or comparable misconduct. *See* 37 C.F.R. § 42.12. Here, the Director permissibly balanced the interests of patent owners and the public in declining to deinstitute. VLSI cites no statute or regulation that prevents the Director from considering those interests. *See Abrutyn*, 15 F.3d at 1053 (considering the USPTO and public interests). While VLSI contends that this IPR gave Intel a "fourth bite at the apple," the AIA places no direct limit on the number of challenges a petitioner can file. *See generally*, 35 U.S.C. §§ 315, 325(d).

VLSI further contends that not deinstituting OpenSky's IPR permitted OpenSky to achieve its objective of "giving Intel its day in court regarding invalidity." VLSI Br. 36 (quoting Appx7407). But as the Director determined, OpenSky's *actual* goal was to extract money from either VLSI or Intel.

(4) The Director's decision did not depart from agency practice.

VLSI contends that the Director departed from agency practice by declining to deinstitute based on VLSI's theory that once OpenSky was dismissed, the IPR should have been deinstituted because the only party remaining—Intel—was time-barred. According to VLSI, this is inconsistent with *I.M.L. SLU v. WAG Acquisition, LLC*, IPR2016-01658, Paper 46, 2018 WL 1128521 (PTAB Feb. 27, 2018). VLSI Br. 36–38. VLSI's argument fails for at least two reasons. First, the Board in *I.M.L.* determined that a legitimate question had been raised about whether CoolVision—who would have triggered the § 315(b) time bar—was an unnamed real-party-in-interest. The Board accordingly granted Patent Owner's request to terminate I.M.L.'s petition because that IPR should have never started; with nothing left for Joinder Petitioner Duodecad to join, the Board vacated that joinder decision. *I.M.L.*, 2018 WL 1128521, at *1, *5–6; *see SharkNinja Operating LLC v. iRobot Corp.*, IPR2020-00732, Paper 11, 2020 WL 5924213, at *12-14 (Oct. 6, 2020). Here, VLSI did not offer evidence sufficient to similarly raise a legitimate question about an unnamed RPI (let alone one that would trigger § 315(b)), nor was OpenSky's temporary dismissal predicated on its petition being time-barred, making *I.M.L.* inapposite. Appx116–117. Second, VLSI's argument is moot to the extent it is predicated on OpenSky's dismissal because the Director reconsidered her decision to dismiss and reinstated OpenSky. Appx128.

3. The process by which the Director arrived at the sanction was permissible.

VLSI contends that the Director's sanctions were arbitrary and capricious. VLSI Br. 43–47. VLSI is incorrect.

a) The Director did not abuse her discretion by limiting OpenSky's control of the IPR.

VLSI contends that the Director's relegation of OpenSky to an understudy role was an abuse of discretion because it rewarded, and did not punish, OpenSky because OpenSky had no interest in actually pursuing the merits of the IPR. VLSI Br. 44–45. VLSI further contends that the relegation rewarded OpenSky because it fulfilled OpenSky's alleged goal of giving Intel its day in court, while reducing the cost for OpenSky to do so. *Id.* 44. VLSI is incorrect. As the Director explained, OpenSky's goal was to use its control of the IPR to extract payment from either Intel or VLSI. Appx78; Appx80; Appx84. The Director correctly found that OpenSky's conduct repeatedly reflected that purpose. Appx66–71. Relegating OpenSky to understudy minimized its ability to financially benefit, frustrating OpenSky's true goal. Again, while the current Acting Director would not have taken this approach, the then-Director's decision was not an abuse of discretion.

VLSI contends that the posture of the IPR at the time of the sanction meant that OpenSky had no leverage to exploit. VLSI Br. 45. Considering that OpenSky had already taken the unprecedented step of offering to sabotage its own proceeding, it was permissible for the Director to ensure that OpenSky was unable to take any further steps that would obstruct the proceeding or benefit OpenSky. *See* Appx84.

VLSI incorrectly contends that the Director abused her discretion by dismissing and then reinstating OpenSky. VLSI Br. 45–46. The Director acted permissibly—"[t]he power to reconsider is inherent in the power to decide." *Tokyo Kikai Seisakusho, Ltd. v. United States*, 529 F.3d 1352, 1360 (Fed. Cir. 2008) (citing *Trujillo v. Gen. Elec. Co.*, 621 F.2d 1084, 1086 (10th Cir. 1980)). The Director explained that her decision to reinstate OpenSky was based on a similarly situated IPR of another VLSI patent brought by PQA. Appx128. There, after the Director dismissed PQA from that IPR after finding misconduct and abuse but before deciding on the appropriate sanction, PQA indicated that it would no longer participate because, in its view, it was "no longer subject to the Office's jurisdiction." *Patent Quality Assurance LLC v. VLSI Tech. LLC*, IPR2021-01229, Paper 107 at 1 (PTAB Jan. 25, 2023). The Director reinstated PQA to ensure its participation and to ensure that PQA could not avoid sanctions. *Patent Quality Assurance LLC v. VLSI Tech. LLC*, IPR2021-01229, Paper 108 at 3–4 (PTAB Jan. 27, 2023). The Director thus sought to avoid similar concerns here. Considering OpenSky's conduct, it was not an abuse of discretion for the Director to ensure her ability to impose sanctions by reinstating OpenSky, rather than risk that those sanctions would later be unwound.

b) The Director did not abuse her discretion by imposing a substantial monetary sanction on OpenSky.

VLSI contends that the Director abused her discretion by imposing a monetary sanction without considering whether OpenSky would pay. VLSI Br. 46–47. VLSI never asked the Director to consider this issue, and it is therefore forfeited. *In re Google Tech. Holdings LLC*, 980 F.3d 858, 862–63 (Fed. Cir. 2020). VLSI cannot complain that the Director did not consider an argument that it did not make.

In any event, VLSI identifies no statute or regulation that requires the Director to consider ability to pay before issuing a monetary sanction. Instead, whether a sanctioned party can pay "should be treated as reasonably akin to an affirmative defense, with the burden upon the parties being sanctioned to come forward with evidence of their financial status." *White v. General Motors Corp., Inc.*, 908 F.2d 675, 685 (10th Cir. 1990); *EToolz, Inc. v. Doctor's Signature Sales & Mktg., Inc.*, No. 2:00-CV-0175B, 2005 WL 8174964, at *5 (D. Utah June 15, 2005). This is so because inability to pay generally indicates that the sanction amount should be *decreased*. *Shales v. Gen. Chauffeurs, Sales Drivers & Helpers Loc. Union No. 330*, 557 F.3d 746, 748–49 (7th Cir. 2009) ("The poorer the lawyer, the lower the sanction can be and still deter repetition by the lawyer or anyone similarly situated.").

Although OpenSky argued that the Director should decrease the sanction amount based on, for example, alleged failures of VLSI's evidence, at no point did it argue that it would be unable to pay a monetary sanction. *See, e.g.*, Appx209–225

(Director addressing OpenSky's objections to the sanction amount). Similarly, there was no evidence suggesting that OpenSky would be unable to pay. VLSI highlights OpenSky's comments suggesting that it was allegedly running out of money (VLSI Br. 46), but those comments were part of a "predatory" attempt to extract payment from Intel. Appx77–78.

VLSI's cited cases are distinguishable on that basis. *Martin* was remanded for the district court to reconsider whether to sanction an individual as joint and severally liable for a $1.5 million sanction where the individual's affidavit indicated that he had "a net worth of $32,300" and, in the most recent year, "a gross income . . . of $43,700." *Martin v. Automobili Lamborghini Exclusive, Inc.*, 307 F.3d 1332, 1337 (11th Cir. 2002). The affirmative evidence that the individual would not be able to pay the award suggested that his responsibility should be reduced. *Id. Brown* involved a sanctioned individual proceeding *in forma pauperis*, so there was similar evidence of inability to pay. *Brown v. Oil States Skagit Smatco*, 664 F.3d 71, 78 & n.2 (5th Cir. 2011). *In re Grand Jury* involved a "defunct corporation," and a potential contempt sanction to compel future conduct, rather than a sanction to police past misconduct. 705 F.3d 133, 148 (3d Cir. 2012).

More broadly, VLSI contends that the Director did not explain how her sanction could "deter similar abuse." VLSI Br. 47 (quoting Appx81). During the Director Review, VLSI itself argued that "[a]n award of attorneys' fees and costs is necessary to deter future misconduct by OpenSky and its like." Appx2799 (VLSI's opening brief responding to the Director's Oct. 4, 2022 show-cause order); Appx2838 (VLSI arguing in its reply brief to the Director's Oct. 4 show-cause order that monetary sanctions were necessary "to deter future would-be OpenSkys."); *see generally* Appx2799–2800. It should not now be heard to complain that the sanctions *it argued* would deter similar abuse cannot do so.

It is understood that sanctions exist not only to deter the sanctioned party, but also other parties contemplating similar misconduct. *See, e.g.*, *Nat'l Hockey League v. Metro. Hockey Club, Inc.*, 427 U.S. 639, 643 (1976) (per curiam). OpenSky conducted its IPR focused on extracting money from VLSI or Intel, even offering to throw the IPR; instead, that misconduct was explored and ultimately resulted in an over $400,000 sanction. That OpenSky failed to achieve its goals and was subjected to a significant sanction serves to "deter similar abuse" if contemplated in future proceedings by OpenSky or another party. Appx81.

4. Even if VLSI's challenges to the Director's institution decision were correct, the remedy would be remand, not reversal.

VLSI repeatedly argues that the Director's decision was unsound because it "[v]iolated the APA's [r]equirement of [r]easoned [d]ecisionmaking." VLSI Br. 30; *see also id.* 1, 3, 27, 31–34, 36–38, 43, 49. Nevertheless, the remedy VLSI asks for is reversal and deinstitution of the underlying IPR. *E.g.*, *id*. 49.

The Director sufficiently explained her reasoning, as detailed above. To the extent this Court disagrees, the remedy is a remand for further explanation, not reversal. *FPL Energy Marcus Hook, L.P. v. FERC*, 430 F.3d 441, 448–49 (D.C. Cir. 2005). That is particularly true here, where Congress entrusted the Director with the discretionary institution decision (35 U.S.C. §§ 314(a), (d)), and in view of the highly deferential nature of sanctions determinations.

B. Intel was not barred from being a party.

VLSI contends that Intel should not have been permitted to join OpenSky's IPR as a party because Intel's petition was filed more than one year after VLSI served it with an infringement complaint (*see* 35 U.S.C. § 315(b)), and thus the petition was not properly filed within the meaning of 35 U.S.C. § 315(c). VLSI's arguments fail for several reasons.

1. Section 314(d) bars review of whether a joined petition was timely filed.

IPR joinder involves two decisions: (i) "whether the joinder applicant's petition for IPR 'warrants' institution under § 314"; and (ii) "whether to 'join as a party' the joinder applicant." *Facebook, Inc. v. Windy City Innovations, LLC*, 973 F.3d 1321, 1332 (Fed. Cir. 2020). This Court recognized in *Facebook* that challenges to "timeliness" are unreviewable as challenges to whether a joinder applicant's petition for IPR "warrants" institution. *Id.* (citing *Thryv*, 590 U.S. at 52-53); *see Fitbit*, 964 F.3d at 1115 (holding that the argument that a "petition and the accompanying request for joinder were filed more than one year after the filing of [patent owner]'s district court suit" and thus untimely is "not reviewable on appeal"). *Facebook*'s additional holding that this Court has jurisdiction over other joinder issues does not help VLSI. Br. 52 n.10. The issues found reviewable there related to the second joinder decision—the joinder motion—which VLSI does not challenge. Further, the issues reached—whether the statute permits same-party joinder and joinder of new issues—are not implicated here and fell outside the unreviewability bar because they went to the scope of the already-instituted IPR. The same cannot be said of VLSI's timeliness challenge to Intel's petition because § 314(d) bars VLSI's argument.

2. Intel's joinder did not create cognizable prejudice to VLSI.

If § 314(d) does not bar review of VLSI's statutory construction argument, this Court should still not reach VLSI's joinder argument because VLSI does not identify any cognizable prejudice from Intel's participation. *See VirnetX Inc. v. Mangrove Partners Master Fund, Ltd.*, 778 F. App'x 897, 901–902 (Fed. Cir. 2019) (declining to consider the same statutory argument that VLSI raises here absent a showing of prejudice to the patent owner). In *VirnetX*, the Court rejected VirnetX's challenge to Apple's joinder where "Apple's petitions did not add any issues to the proceedings" and the Board "imposed restrictions on Apple's involvement." *Id.* The same occurred here. The Board: (i) found (and VLSI does not dispute) that Intel's petition presented "challenges and evidence nearly identical to those" presented by OpenSky (Appx5; Appx20); (ii) held Intel to the existing schedule (Appx20); and (iii) initially restricted Intel to an understudy role (Appx20 (citing Intel's Motion for Joinder (Paper 4) at 10 n.2 (Appx14100) & 15 (Appx14105)).

VLSI argues that it was prejudiced due to Intel's contributions to the IPR. VLSI Br. 53–55. VLSI does not explain how these actions might have affected the outcome. In *VirnetX*, the patent owner (like VLSI) alleged active participation by Apple, including "assum[ing] a leading role," "tak[ing] over communications between petitioners and VirnetX," and "prepar[ing] and defend[ing] the deposition of petitioners' expert." VirnetX Opening Brief, No. 17-1368, ECF No. 45, at 75. VirnetX even alleged that it "had to defend itself against new issues and evidence introduced by Apple" "that were not presented by Mangrove [the original petitioner] in the original proceedings." *Id.* This Court nevertheless ruled that Apple's participation—more active and pronounced than the level of participation by Intel alleged by VLSI here—did not prejudice VirnetX. 778 F. App'x at 901–902. VLSI also speculates that absent Intel's joinder, this IPR would have ended following OpenSky's relegation or dismissal. VLSI Br. 54–55. VLSI cites no evidence in support, and ignores that IPRs may continue even when "no petitioner remains." 35 U.S.C. § 317(a); *see* 37 C.F.R. § 42.74(a) (Board may "independently determine any question of . . . patentability"). Ultimately, even if VLSI's alleged prejudices are given full credit, they derive from the statutory scheme, for reasons explained in the next section.

3. The exception in the second sentence of § 315(b) reasonably refers back to the first sentence's time limitation on petitions.

If the timeliness of Intel's petition is reviewable and prejudice shown, § 315(b) does not bar Intel's joinder. While § 315(b) states that an IPR may not be instituted if a petition "is filed more than 1 year after the date on which the petitioner . . . is served with a complaint alleging infringement of the patent," it also states that that time limitation "shall not apply to a request for joinder." USPTO regulations accordingly indicate that the one-year bar "shall not apply when the petition is accompanied by a request for joinder." 37 C.F.R. § 42.122 (citing 37 C.F.R. § 42.101(b)).

The Board permissibly relied on the § 315(b) joinder exception in allowing Intel's joinder. Appx8 n.7; Appx19. That decision comports with the USPTO's interpretation of §§ 315(b-c). *See* 37 C.F.R. § 42.122(b) (consistent with the statute);[6] *Proppant Express Inv., LLC v. Oren Techs.*, IPR2018-00914, Paper 38, 2019 WL 1283948 at *8 (PTAB Mar. 13, 2019). Section 315(b) includes two

[6] In *VirnetX*, the Supreme Court ultimately denied review of the question of whether "the Federal Circuit erred in upholding joinder of a party under 35 U.S.C. §315(c), where the joined party did not 'properly file[] a petition' for inter partes review within the statutory time limit." *VirnetX Inc. v. Mangrove Partners Master Fund, Ltd.*, No. 23-315, 144 S. Ct. 1001 (Mem.) (Feb. 20, 2024) (denying certiorari).

sentences. The first sentence sets a one-year time limitation for filing IPR petitions running from when the petitioner has been served with an infringement complaint. The second sentence states that "[t]he time limitation set forth in the preceding sentence shall not apply to a request for joinder." The only "time limitation set forth in the preceding sentence" is the time limitation on filing an IPR petition; the first sentence does not address requests for joinder. Thus, the "time limitation set forth in the preceding sentence" that "shall not apply" refers to the one-year bar on filing a petition. VLSI's alternative reading—that § 315(b) only exempts joinder requests, not petitions, from the one-year bar (VLSI Br. 51–52)—means that § 315(b)'s exception to the time-bar for "requests for joinder" does no work. The first sentence of § 315(b) does not provide a time frame for filing "requests for joinder" that would require an exception in the second sentence.[7]

4. Intel's petition was timely because it met the joinder exception, and therefore was "properly file[d]."

VLSI also argues that Intel's petition was not properly filed within the meaning of § 315(c) because "properly filed" in § 315(c) excludes untimely

[7] Indeed, § 316(a)(5) specifically empowers the USPTO to set "a time period for requesting joinder under section 315(c)," which the USPTO has done (37 C.F.R. § 42.122). The statement by Senator Kyl cited by VLSI (Br. 51) that the statute "gives the Office *discretion* in setting a time limit for allowing joinder," 157 Cong. Rec. S1376 (daily ed. Mar. 8, 2011) (emphasis added) is inconsistent with VLSI's arguments that § 315(b) affects joinder requests' timing requirements.

petitions. VLSI Br. 51–52. But VLSI's premise—that Intel's petition was untimely—is incorrect because, as explained above, § 315(b) excepts joinder petitions from the one-year time limitation. *See Wallace v. Mahanoy*, 2 F.4th 133, 149 (3d Cir. 2021) (filing that meets a statutory exception is properly filed); *Stafford v. Ryan*, 477 F. App'x 449, 450 (9th Cir. 2012) (same). As Intel's petition was not untimely, VLSI's argument fails.

C. OpenSky's argument that the Amerian Rule bars monetary sanctions fails because that Rule applies to fee-shifting statutes, not sanctions.

1. The American Rule does not apply to attorney's fees awarded as a sanction.

OpenSky incorrectly argues that the Director's award of attorney's fees to VLSI was prohibited under the American Rule. OpenSky's entire briefing on this issue rests on the false premise that the American Rule applies to any award of attorney's fees—no matter the context—and, thus Congress here did not provide the needed explicit statutory authority overriding that Rule. In other words, OpenSky simply states the American Rule as a general proposition without providing a single citation in support of applying the American Rule to attorney's fees awarded as a sanction. *See, e.g.*, OpenSky Br. 20–21.

The Supreme Court has described the "American Rule" as meaning that "[e]ach litigant pays his own attorney's fees, win or lose, unless a statute or contract provides otherwise." *Baker Botts L.L.P. v. ASARCO LLC*, 576 U.S. 121, 126 (2015).

In *Nantkwest*, the Supreme Court further "confirm[ed] that the [American Rule] presumption against *fee shifting* applies to all statutes," even those statutes not limited to "prevailing parties." *Peter v. Nantkwest*, 589 U.S. 23, 28–29 (2019) (citing *Sebelius v. Cloer*, 569 U.S. 369 (2013)) (emphasis added).

A clear line of precedent distinguishes the award of attorney's fees as a sanction from statutes including fee-shifting provisions. In *Cooter & Gell v. Hartmarx Corp.*, 496 U.S. 384, 388, 405, 409 (1990), the Supreme Court considered, *inter alia*, whether a District Court's award of attorney's fees as a sanction under Fed. R. Civ. Proc. 11 ("Rule 11") could include attorney's fees incurred defending the sanction award on appeal and noted as part of its discussion that "Rule 11 is not a fee-shifting statute."

Then, in *Business Guides, Inc. v. Chromatic Communications Enterprises, Inc.*, 498 U.S. 533, 552-54 (1991), the Supreme Court considered appellant's argument that Rule 11 violated the Rules Enabling Act, 28 U.S.C. § 2072, because "[i]t authorizes fee shifting in a manner not approved by Congress," and the Court elaborated on the differences between attorney's fees sanctions and fee-shifting statutes. Business Guides had argued, as OpenSky does here, that *Alyeska Pipeline Service Co. v. Wilderness Society*, 421 U.S. 240 (1975), demonstrates that courts cannot "reallocate the burdens of litigation" without express Congressional authorization. *Business Guides*, 498 U.S. at 552–53. The Supreme Court found no merit in the argument and explained:

> Rule 11 sanctions do not constitute the kind of fee shifting at issue in *Alyeska*. Rule 11 sanctions are not tied to the outcome of litigation; the relevant inquiry is whether a specific filing was, if not successful, at least well founded. Nor do sanctions shift the entire cost of litigation; they shift only the cost of a discrete event. Finally, the Rule calls only for "an appropriate sanction"—attorney's fees are not mandated.

Id. at 553.

Later that same year, the Supreme Court made clear that the distinction is not limited to attorney's fees sanctions under Rule 11. In *Chambers v. NASCO, Inc.*, 501 U.S. 32, 35 (1991), the Supreme Court considered whether a district court could invoke its inherent power to assess attorney's fees sanctions for bad-faith conduct. The Supreme Court determined that federal courts have the inherent power to assess attorney's fees "even though the so-called 'American Rule' prohibits fee shifting in most cases." *Id.* at 45 (citing *Alyeska*, 421 U.S. at 259). Quite simply, the assessment of attorney's fees as a sanction and fee shifting are not the same, and only fee-shifting statutes are subject to the American Rule presumption.

Multiple Courts of Appeals are in accord. *See, e.g.*, *Mount Hope Church v. Bash Back!*, 705 F.3d 418, 429 n.11 (9th Cir. 2012) ("A fee shifting provision is distinguishable from a sanction.") (citing *Chambers*, 501 U.S. at 52–53); *In re S. Cal. Sunbelt Developers Inc.*, 608 F.3d 456, 462 (9th Cir. 2010) ("The Supreme Court drew a distinction between fee-shifting provisions and sanctions.") (citing

Business Guides, 498 U.S. at 553); *Arbor Hill Concerned Citizens Neighborhood Assoc. v. County of Albany*, 369 F.3d 91, 97-98 (2d Cir. 2004) ("Rule 11 is not a fee-shifting mechanism."); *Garbie v. DaimlerChrysler Corp.*, 211 F.3d 407, 410 (7th Cir. 2000) (distinguishing a sanctions rule from a fee-shifting statue in categorizing a diversity removal statute); *Lamb Eng'g & Constr. Co. v. Neb. Public Power Dist.*, 103 F.3d 1422, 1434–35 (8th Cir. 1997) ("Federal courts have inherent power to assess attorney fees in narrowly defined circumstances, despite the so-called 'American Rule,' which prohibits fee shifting in most cases.") (citing *Chambers*, 501 U.S. at 45); *Gaiardo v. Ethyl Corp.*, 835 F.2d 479, 483 (3d Cir. 1987) ("Rule 11 sanctions should not be viewed as a general fee shifting device.").

While neither the Board nor the Director has the inherent authority of an Article III court, Congress granted the Director express authority in inter partes proceedings to "prescrib[e] sanctions for abuse of discovery, abuse of process, or any other improper use of the proceeding." 35 U.S.C. § 316(a)(6). Pursuant to that rulemaking authority, the USPTO promulgated 37 C.F.R. § 42.12, allowing the Board to sanction a party for misconduct, including by "[a]n order providing for compensatory expenses, including attorney fees." USPTO Rule 42.12 allows the Board to use sanctions, including attorney's fees, to preserve and protect the integrity of its proceedings without contravening the American Rule, just like Federal Rules of Civil Procedure 11 and 37. The authority for Rules 11 and 37 is exactly like the

Director's authority here. Congress gave the Supreme Court the authority to prescribe the Federal Rules of Civil Procedure (including Rule 11 and 37) via the Rules Enabling Act, which does not include the type of express override that OpenSky argues must have been given to the USPTO here. Furthermore, Congress did not exclude attorney's fees from its authorization in § 316, nor has it overridden Rule 42.12 via statute.

2. All of OpenSky's arguments rest on its false American Rule premise.

All of OpenSky's arguments flow from the incorrect presumption that the American Rule applies to sanctions. First, relying on *NantKwest* (OpenSky Br. 20–24), OpenSky argues that 35 U.S.C. § 316 does not contain the type of "specific and explicit" language necessary to override the American Rule presumption. As the American Rule does not apply to attorney's fees awarded as a sanction, there is no need for § 316 to contain such an express directive. It is sufficient that § 316(a)(6) provides the Director with the express authority to broadly prescribe sanctions for "abuse of discovery, abuse of process," etc., without prohibiting the imposition of attorney's fees as a sanction.

Second, OpenSky's related argument that Congressional intent to override the American Rule for IPRs similarly cannot be inferred (OpenSky Br. 24–28) fails for the same reason. OpenSky's focus on other statutes to divine Congressional intent is thus unnecessary. Further, the exercise goes nowhere. For example, OpenSky argues that it must be meaningful that Congress expressly authorized attorney's fees in 35 U.S.C. § 285 of the Patent Act, but not in § 316. OpenSky Br. 25. But this aligns perfectly with the distinction drawn above, as the Supreme Court has characterized § 285 as a "fee-shifting provision." *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 572 U.S. 545, 549 (2014). Similarly, OpenSky argues that Congress gave more explicit authority to the International Trade Commission ("USITC") by granting it rulemaking authority for sanctions "to the extent authorized by Rule 11 and Rule 37 of the Federal Rules of Civil Procedure." OpenSky Br. 25–26 (citing 19 U.S.C. § 1337(h)). Congress' decision to provide more direction to the USITC regarding the scope of its sanctions power cannot inferentially cabin the sanctions authority provided in § 316(a)(6). And that directive doesn't help OpenSky here. FRCP 11 and 37 were prescribed by the Supreme Court, not Congress. *See* 28 U.S.C. §§ 2072–74; *Business Guides*, 498 U.S. at 552. While Congress may override that rule during the review period pursuant to the Rules Enabling Act, they did not. Congress's grant of authority to the USITC to impose attorney's fees as a sanction is thus no more explicit in overriding the American Rule than its grant to the USPTO Director. Also unpersuasive is OpenSky's argument (OpenSky Br. 28) that the IPR statutes lack "procedures and enforcement mechanisms" for attorney's fees awards like those in, for example, the Equal Access to Justice Act ("EAJA"). Again, this argument traces back to the fundamental flaw of OpenSky's argument—the Supreme Court categorizes the EAJA as a fee-shifting statute. *Comm'r, I.N.S. v. Jean*, 496 U.S. 154, 161–62 (1990). In addition, OpenSky argues that the USITC statute authorizes attorney's fees, but that statute does not include such mechanisms for those fee awards. *See* 19 U.S.C. § 1337; *see also*, *e.g.*, 19 C.F.R. § 210.4.

Third, OpenSky argues that 37 C.F.R. § 42.12 exceeds the Director's delegated rulemaking authority under 35 U.S.C. § 316 because § 316 lacks explicit language from Congress overriding the American Rule. OpenSky Br. 29–33. This argument repeats OpenSky's first argument and is incorrect for the same reasons.

Fourth, OpenSky argues that the Director lacks inherent authority to award attorney's fees as a sanction. OpenSky Br. 33–35. The Director did not rely on inherent powers but acted "pursuant to express statutory and regulatory authority." Appx129 (citing 35 U.S.C. § 316(a)(6); 37 C.F.R. § 42.12). VLSI apparently divines such a basis from the Director's discussion of *Chambers*. The Director cited to *Chambers* to support the distinction between fee-shifting statutes and attorney fees awarded as a sanction. *Id.* ("The order to show cause is not directed to fee shifting; it is a sanction order.") (citing *Chambers*, 501 U.S. at 45–46). There is thus no merit to OpenSky's argument.

D. The Director sanctioned OpenSky for misconduct that is not protected under the *Noerr-Pennington* doctrine.

1. *Noerr-Pennington* does not immunize misconduct during the administrative proceeding itself.

"Under *Noerr-Pennington*, a person's act of petitioning the government is presumptively shielded from liability by the First Amendment against certain types of claims." *Content Extraction & Transmission LLC v. Wells Fargo Bank, Nat. Ass'n*, 776 F.3d 1343, 1349 (Fed. Cir. 2014). *Noerr-Pennington* immunity applies to administrative processes as well as litigation. *California Motor Transp. Co. v. Trucking Unlimited*, 404 U.S. 508, 510–11 (1972); *Tyco Healthcare Grp. LP v. Mut. Pharm. Co.*, 762 F.3d 1338, 1347 (Fed. Cir. 2014).

Other Circuit Courts have concluded that *Noerr-Pennington* protections should extend to "prelitigation communications demanding settlement of legal claims," "settlement agreements," and "threats of litigation." *Sosa v. DIRECTV, Inc.*, 437 F.3d 923, 939, 942 (9th Cir. 2006); *A.D. Bedell Wholesale Co. v. Philip Morris Inc.*, 263 F.3d 239, 253–54 (3d Cir. 2001); *Coastal States Mktg., Inc. v. Hunt*, 694 F.2d 1358, 1367 (5th Cir. 1983). This Court has similarly extended *Noerr-Pennington* to "pre-litigation communications alleging patent infringement." *Globetrotter Software, Inc. v. Elan Computer Grp., Inc.*, 362 F.3d 1367, 1377 (Fed. Cir. 2004).

But *Noerr-Pennington* does not abrogate the authority of tribunals to sanction abusive post-filing litigation conduct. In a case extending *Noerr-Pennington* principles to enforcement actions under the National Labor Relations Act, for example, the Supreme Court stated that "nothing in our holding . . . 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—or the validity of statutory provisions that merely authorize the imposition of attorney's fees on a losing plaintiff." *BE & K Const. Co. v. N.L.R.B.*, 536 U.S. 516, 537 (2002); *see also Mohammed v. Anderson*, 833 F. App'x 651, 655 (7th Cir. 2020) (holding that *Noerr-Pennington* "does not shield a party from sanctions in a civil lawsuit" and affirming attorney's fee sanction); *Helmueller v. Anderson*, No. 23-1609, 2023 WL 8111459, at *2 (7th Cir. Nov. 22, 2023) (affirming dismissal as a sanction against plaintiff for making threats during litigation). Likewise, this Court has found that "settlements do not, as a blanket rule, always fall under *Noerr-Pennington*," even if "routine unsuccessful offers to settle" are protected. *Indus. Models, Inc. v. SNF, Inc.*, 716 F. App'x 949, 957 (Fed. Cir. 2017) (citing *F.T.C. v. Actavis, Inc.*, 570 U.S. 136 (2013)).

2. The Director's final sanction determination was based only on OpenSky's post-filing conduct.

In the Director's initial October 2022 review decision, she determined both that it was both "appropriate to sanction OpenSky for its discovery misconduct"

(Appx62), and "further sanction [it] for its abuse of process" (Appx87–88). The Director highlighted that OpenSky's discovery misconduct interfered with the inquiry into abuse of process and thus concluded that it was appropriate to "apply adverse inferences in [her] decisions on abuse of process." Appx64–65. This provided clear notice of the close linkage between the two forms of misconduct. While the Director's inquiry into abuse of process at this stage examined OpenSky's pre-filing behavior, she also made clear that "after filing the Petition, OpenSky did not conduct itself in a manner consistent with the AIA's purpose of exploring patentability issues." Appx65–81. Thus, the Director 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," and allowed VLSI and OpenSky to file additional briefing. Appx87–88.

Following that additional briefing, the Director determined in her February 2023 order that an award of attorney's fees to compensate VLSI was an appropriate sanction of OpenSky. Appx126–127. In the final sanctions decision, the Director made clear that she was "not sanctioning OpenSky based on whether it filed a meritorious Petition" but was "imposing sanctions because of the manner in which OpenSky conducted itself *after* the Petition was filed." Appx134 (emphasis added). The Director later reiterated that OpenSky's pre-filing behavior and/or intent merely "informed [her] analysis" of OpenSky's post-filing conduct. Appx135–136. The basis for the sanction was post-filing "misconduct—offering to undermine the IPR . . . and failing to comply with Mandated Discovery." Appx134.

Thus, although the Director looked to the totality of OpenSky's conduct to contextualize OpenSky's post-filing behavior, the Director imposed the compensatory attorney's fees sanction solely for OpenSky's failure to comply with mandated discovery and misconduct in how it pursued the IPR proceeding.

3. OpenSky's *Noerr-Pennington* arguments lack merit.

In view of the limited scope of the activity that formed the basis for the Director's sanction and the scope of *Noerr-Pennington* protections discussed above, OpenSky's arguments that the Director ignored *Noerr-Pennington* (OpenSky Br. 36–45) fall flat. The Director's sanction decision did not rely on petitioning-related conduct protected by *Noerr-Pennington*. *Noerr-Pennington* does not immunize OpenSky's failure to cooperate in discovery or its post-filing efforts to undermine the integrity of the IPR proceedings in exchange for money. Appx133–134. The Director found that OpenSky's attempts to extract cash in exchange for sabotaging the IPR do not reflect normal settlement activities. Appx40; Appx229. The sanctioned activity is thus well outside the settlement agreement activities that were at issue in the cases relied upon by VLSI for its position that *Noerr-Pennington* immunizes settlement communications. *See Bedell*, 263 F.3d at 253–54 (no allegation that settlement tainted the litigation proceedings); *Sosa*, 437 F.3d at 939, 942 (holding limited to prelitigation settlement demands); *Indus. Models*, 716 F. App'x at 957 (limited to "routine . . . offers to settle"). Indeed, OpenSky's capacious reading of *Noerr-Pennington* would nullify Congress' express authorization to sanction IPR misconduct and abuses. *See* 35 U.S.C. § 316(a)(6); Appx133.

E. The Director correctly awarded attorney's fees only for the additional work of VLSI's counsel directly caused by OpenSky's misconduct.

1. The Director applied the proper causation standard.

OpenSky argues that the Director failed to appreciate the difference in standards for assessing fee-shifting versus compensatory attorney's fees awards. OpenSky Br. 45-49. Relying principally on *Goodyear Tire & Rubber Co. v. Haeger*, 581 U.S. 101, 108–13 (2017), OpenSky argues that the Director failed to assess whether the fees would not have been incurred "but for" the misconduct in question. OpenSky Br. 45-49. The record belies this allegation.

In stating her intention to award compensatory attorney's fees for OpenSky's misconduct and ordering further briefing to assess those fees, the Director explicitly tied any award to VLSI's misconduct:

> [T]he Director review process was initiated to examine OpenSky's misconduct and determine whether to reverse the institution decision. . . . *But for* OpenSky's misconduct, VLSI would not have incurred the fees necessary to address OpenSky's misconduct in the case and upon Director Review. Accordingly, I determine that the appropriate sanction is for OpenSky to compensate VLSI for the reasonable attorney fees incurred in addressing the issue of OpenSky's

> misconduct during the proceeding, and for the Director Review process in its entirety.

Appx137–138 (emphasis added). The Director did not award fees related to the merits phase or other fees that would have been incurred in the absence of OpenSky's misconduct.

The Director took advantage of the natural separation of the merits inquiry conducted by the Board, and the misconduct inquiry conducted through the Director Review process, to help limit the assessed attorney's fees sanction to those costs that would not have been incurred "but for" the misconduct. And she went further in the order assessing appropriate fees following additional briefing by the parties, separately reviewing each of the six different categories of expenses submitted by VLSI and alleged to fall within the limits set by the Director as quoted above. Appx225–232. The Director found sufficient evidence to support that five of the six categories of identified attorney's fees would not have been incurred but for OpenSky's misconduct. Appx224 (citing Appx2960–2964).

2. OpenSky's remaining arguments are unpersuasive.

First, OpenSky alleges that the Director improperly relied upon fee categories ("buckets") defined by time rather than subject matter (i.e., not occurring but for the misconduct). OpenSky Br. 49. But, as the categories quoted in OpenSky's brief demonstrate, *id.*, the fee groupings relate to particular subject matter or activities (e.g., "Ethical Research"), rather than time (e.g., month).

Second, OpenSky argues that fees incurred in connection with attorney's fees briefing on Director Review cannot be included in the compensatory fees because Director Review is an appellate process. OpenSky Br. 49-50. But, in exercising her direction and supervision during Director Review, the Director can explore issues and make determinations, such as on the question here of whether OpenSky's actions were sanctionable conduct and, if so, the appropriate remedy. The cases OpenSky cites are readily distinguishable. As discussed above, *Cooter* concerned whether fees incurred defending a District Court's sanction award under Rule 11 at the Court of Appeals could be included in the Rule 11 award itself. 496 U.S. at 388, 405, 409. Notably, the current version of Rule 11 allows an award of attorney's fees incurred in preparing the motion for sanctions itself. Fed. R. Civ. Proc. 11(c)(2).

Blixseth v. Yellowstone Mountain Club, LLC, 854 F.3d 626, 630-31 (9th Cir. 2017), is a case from another Circuit interpreting the scope of "just damages" in Fed. R. App. Proc. 38 ("Rule 38"). This Court has allowed fees relating to the preparation of a Rule 38 motion for sanctions. *Pop Top Corp. v. Rakuten Kobo Inc.*, 2022 WL 2751662, at *3 (Fed. Cir. July 14, 2022); *Bank v. Al Johnson's Swedish Rest. & Butik, Inc.*, 795 F. App'x 822, 827 (Fed. Cir. 2019).

Third, OpenSky repeats its arguments that the Director misapprehended the "but for" causation required to link the assessed compensatory attorney fees to its misconduct. OpenSky Br. 50-53. This argument fails for the reasons discussed above.

F. The Director Review process resulting in sanctions against OpenSky was fully compliant with the APA and applicable laws.

OpenSky's generalized complaints about the Director Review proceedings are a list of grievances—not legally cognizable arguments under the APA.

1. The mandated discovery was within the Director's authority.

Subject to limited merits threshold and timing considerations, Congress vested the Director with full authority over IPR institution decisions. 35 U.S.C. §§ 314(a), (d), 315(b). In addition, Congress gave the Director the express authority to "prescribe regulations . . . setting forth standards and procedures for discovery," including discovery that is "necessary in the interest of justice" for IPRs. 35 U.S.C. § 316(a)(5). The regulations promulgated pursuant to that authority allow for the Board to "determine a proper course of conduct in a proceeding for any situation not specifically covered" (37 C.F.R. § 42.5(a)), and further allow that "the Board may otherwise order" non-routine discovery (37 C.F.R. § 42.51(b)). By statute, the Director is a member of the Board (35 U.S.C. § 6(a)), and thus may employ all the discovery and sanction powers available to the Board by regulation.

In reviewing the institution decision, the Director became aware of circumstances raising the specter of an abuse of process in connection with OpenSky's IPR. In order to investigate the matter for "abuse of process" as directed by Congress, the Director mandated certain discovery. 35 U.S.C. §§ 316(a)(5), (6); 37 C.F.R. §§ 42.51(b), 42.5(a); Appx24–37. The Director explained the basis for discovery with citations to supporting authority. *See, e.g.*, Appx30–34; Appx52–55. OpenSky failed to fully comply with the order, producing just a fraction of the material it had been ordered to produce. Appx52, Appx56–62.

OpenSky argues that the authority of § 316(a)(5) is "bounded by the regulations the Director prescribes," but offers no authority for its argument that 37 C.F.R. §42.5(a) should not apply. OpenSky Br. 55-56. Section 42.5(a) preserves the Board's residual statutory authority to issue orders dealing with, *inter alia*, discovery in situations not otherwise specifically anticipated by USPTO regulations. This is not a novel legal concept. *Cf. Cox v. West*, 149 F.3d 1360, 1363 (Fed. Cir. 1998) ("[T]he [All Writs Act] provides for the issuance of writs 'in aid of' the jurisdiction already possessed" and "is a residual source of authority to issue writs which are not otherwise provided for by statute.") (quoting 28 U.S.C. § 1651(a); citing *Pennsylvania Bureau of Correction v. U.S. Marshals Serv.*, 474 U.S. 34, 43 (1985)).

OpenSky complains (OpenSky Br. 57–58) that the Director's scheduling order required the exchange of documentary exhibits related to specified topics and prohibited new declaratory evidence. Appx9–11. But, as the Director found, "OpenSky did not request permission to file [new declaratory] evidence or raise an objection to the absence of new declaratory evidence, despite several opportunities to do so" before the responses to the scheduling order were due. Appx131. And OpenSky similarly did not raise such an objection or request relief in its responsive filing. Appx1703–1721. OpenSky cannot base a claim for denial of due process in the Director's failure to grant relief that was never requested. OpenSky similarly made no proffer of what such additional declaratory evidence could have shown and does not explain why that should excuse its failure to produce responsive documents that were in its possession—the basis for the Director's sanction. Appx131.

OpenSky complains that the Director could not order a privilege log for any responsive documents withheld on the basis of privilege (OpenSky Br. 58–59) but offers no authority for this assertion. A privilege log is a natural extension of the discovery that is explicitly authorized by statute and regulation, and is a normal requirement for a party resisting such discovery based upon privilege. *Cf. Siler v. Env't Prot. Agency*, 908 F.3d 1291, 1297 (Fed. Cir. 2018) (MSPB "has no rule requiring formal privilege logs" but has "required the proponent of privilege" to provide sufficient substantiating information, which this Court has found necessary to evaluate the privilege claim.). OpenSky's assertion that review of any such documents could lead to waiver is irrelevant to the production of the log itself—which is necessary to ascertain if there is a good faith basis for the withholding.

2. OpenSky identifies no flaw in the Director's application of adverse inferences.

OpenSky argues that the Director's sanctions determination lacks substantial evidence support because "the Director failed to consider and explain significant contrary evidence provided by OpenSky," relying instead on only a single adverse inference that OpenSky initiated settlement negotiations. OpenSky Br. 60–61. In making this adverse inference, the Director found the fact of who initiated settlement discussions to be disputed, despite acknowledging OpenSky's arguments and evidence, in view of OpenSky's withholding of documents. Appx66–67 (citing Appx1715–1718; Appx2161-2166; Appx6132; Appx6134). The pages cited in OpenSky's brief (OpenSky Br. 61) overlap with or are from the same documents cited by the Director in making that inference, so the Director considered the evidence that OpenSky asserts was ignored. OpenSky's own briefing before the Director indicates that the issue was in dispute, arguing that "VLSI's brief inaccurately suggests that OpenSky opened settlement discussions" (Appx2161) but offering only proof that VLSI's counsel left a voicemail for OpenSky's counsel prior to both parties entering an NDA to discuss settlement (Appx2161–2162, Appx6131–6132). Under these circumstances, including OpenSky's failure to produce the discovery detailed in the scheduling order, it was permissible for the Director to find the fact disputed and draw an adverse inference.

3. The Director's abuse of process determination was in accordance with 35 U.S.C. § 316.

Congress authorized the Director to "prescrib[e] sanctions for abuse of discovery, abuse of process, or any other improper use of the proceeding." 35 U.S.C. § 316(a)(6). Without legal support, OpenSky seeks to import the requirements of the common law tort of "abuse of process," as described in the Restatement (Third) of Torts § 26, into § 316. OpenSky Br. 63–67. First, OpenSky supplies no evidence to suggest that Congress intended to import the common law tort definition of "abuse of process" into its grant of IPR rulemaking authority. Second, VLSI's inference is not logical. This Court has cast doubt on "whether actions in connection with federal administrative proceedings can ever provide the 'process' for a common law claim of abuse of process." *See Abbott Lab'ys v. Brennan*, 952 F.2d 1346, 1355 (Fed. Cir. 1991). This Court further concluded that "the federal administrative process of examining and issuing patents, including proceedings before the PTO's boards, is not subject to collateral review in terms of the common law tort of abuse of process." *Id.* at 1357. It would therefore be surprising for Congress to intend to obliquely import the strictures of that action into the USPTO's own regulatory procedures. In addition, this Court has itself used the phrase "abuse of process" in the context of IPRs without reference to the formal common law tort definition. *See In re Vivint, Inc.*, 14 F.4th 1342, 1350 (Fed. Cir. 2021). Finally, Congress's choice to follow "abuse of process" in § 316 with the phrase "or any other improper use of the proceeding" demonstrates the generalized nature of the inquiry that Congress intended. *McDonnell v. United States*, 579 U.S. 550, 568–69 (2016) ("Under the familiar interpretive canon *noscitur a sociis*, a word is known by the company it keeps.") (internal quotation omitted).

4. OpenSky had notice of the sanctions inquiry at each stage of the Director Review proceedings and was given multiple rounds of briefing to respond.

OpenSky's argument that it was denied fair notice and an opportunity to defend itself is unmerited. OpenSky Br. 67–70. The Director's scheduling order identified the scope of the issues subject to Director Review, including "abuse of process or conduct that otherwise thwarts . . . the goals of the Office and/or the AIA," and mandated discovery and briefing directed to that inquiry. Appx30–35. The Director's October 2022 decision extensively details OpenSky's sanctionable, inadequate responses to the scheduling order and the Director's findings on abuse of process, including OpenSky's illicit settlement discussions and failure to meaningfully pursue the merits. Appx38–81, Appx87–88. After yet more briefing (Appx127), the Director explained the award of attorney's fees as a sanction for OpenSky's abuse of process, adding no new rationales and determining instead not to base sanctions on OpenSky's motive in filing the IPR (Appx126–143). After additional briefing (Appx211), the Director considered the parties' submissions on the amount of fees to be awarded as sanctions, addressed their arguments, and determined a final sanctions amount. Appx209–239. OpenSky fails to articulate any specific way in which this multi-round extensive briefing process, with each round punctuated by the Director's exhaustive treatment of the issues to date, was insufficient to give OpenSky a fair opportunity to raise any argument. OpenSky's argument is thus unpersuasive.

VIII. CONCLUSION

For the foregoing reasons, this Court should affirm.

Respectfully submitted,

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CERTIFICATE OF COMPLIANCE

I hereby certify that the foregoing brief complies with the type-volume limitation in Fed. Cir. R. 32(b). The total number of words in the foregoing brief is 13,952, as calculated by Microsoft Word.

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