

UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF NEW MEXICO  
LAS CRUCES DIVISION

STC.UNM,

Plaintiff,

v.

INTEL CORPORATION

Defendant.

Civil No. 1:10-cv-01077-RB-WDS

**STC'S OBJECTIONS TO THE  
MAGISTRATE JUDGE'S REPORT AND RECOMMENDATIONS ON  
STC'S MOTION TO DISMISS INTEL'S AMENDED COUNTERCLAIM AND  
TO STRIKE INTEL'S AFFIRMATIVE DEFENSE FOR UNENFORCEABILITY**

STC objects to the Magistrate's Report and Recommendations (the "Report") [Doc. 140] for the following reasons:

- The Report failed to apply new, game-changing precedent issued from the Federal Circuit Court of Appeals in an *en banc* decision. As a consequence, the Report did not analyze the issues before it under the correct rule of law.
- The Report failed to even begin to analyze the amended counterclaim under the proper *but-for* materiality test set forth by the Federal Circuit Court of Appeals [Report, at 6].
- The Report improperly shifted the burden to STC to fill in sufficient allegations to support Intel's counterclaim. *Id.*
- The Report erroneously failed to dismiss one of Intel's allegations that Intel formally withdrew in its supplemental brief. [Report, at 4-5 (FN3)].

For the reasons discussed below, STC respectfully requests that the Report be rejected *in toto*.

## I. Background

The instant motion spans several generations of briefing, a dramatic change in the law, and shifting allegations from Intel. STC originally filed a motion to dismiss Intel's third counterclaim because the allegations did not establish the materiality required to plead inequitable conduct. *See* Doc. No. 28. Intel responded by filing an amended counterclaim, essentially admitting that its original allegations were indeed deficient. *See* Doc. No. 38.

During the pendency of STC's renewed motion to dismiss (Doc. No. 45), the Federal Circuit Court of Appeals<sup>1</sup> issued an *en banc* decision that changed the law regarding the materiality prong of inequitable conduct by substantially tightening the requirements needed to establish a claim of this type which concerns committing a fraud on the Patent Office. *See Therasense, Inc. v. Becton, Dickinson & Co.*, 2011 U.S. App. LEXIS 10590 (Fed. Cir. May 25, 2011). In response, supplemental briefs were filed to bring the decision to the Court's attention. *See* Doc. Nos. 103 & 105.

In its supplemental brief, Intel formally withdrew one of the two bases of its inequitable conduct allegations – alleging that prior art was withheld from the Patent Office. Doc. No. 103, at 3-4. Further recognizing that the remainder of its inequitable conduct allegations were in trouble, Intel narrowed the scope of its allegations, and for the first time, asserted that it is alleging “unclean hands,” even though it is not part of its pleadings. *Id.*

## II. Standard of Review

Under Rule 72(b), any part of a magistrate judge's Report that is objected to is reviewed *de novo* and the district court may accept, reject, or modify the Report. In addition, the court may receive further evidence or return the Report to the magistrate judge with instructions. Fed. R.

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<sup>1</sup> The Federal Circuit has exclusive jurisdiction over all appeals for patent actions.

Civ. P. 72(b)(3). Here, as will be shown below, the Report should be rejected because it failed to apply newly established precedent and by failing to apply Fed. R. Civ. P. 9(b) which requires Intel to plead each and every element of its accusation that STC committed fraud.

### **III. The Report Failed to Analyze the Issues Under *Therasense***

On May 25, 2011, during the pendency of the motion, the Federal Circuit issued an *en banc* decision that dramatically changed, among other things, the standard for the materiality prong of an inequitable conduct charge by making it more difficult to establish that the alleged misconduct was material. The Federal Circuit heightened this standard to curtail the abuse of pleading inequitable conduct in nearly every single patent case filed. The following quotes are representative on the Federal Circuit's motivation for changing the law:

- '[T]he habit of charging inequitable conduct in almost every major patent case has become an absolute plague' (*Therasense*, at \*29. (citation omitted));
- Inequitable conduct 'has been overplayed, is appearing in nearly every patent suit, and is cluttering up the patent system' (*Id.* at \*29 (citation omitted));
- Because the [inequitable conduct] doctrine focuses on the moral turpitude of the patentee with ruinous consequences for the reputation of his patent attorney, it discourages settlement and deflects attention from the merits of validity and infringement issues (*Id.*, at \*27); and
- Inequitable conduct disputes also 'increas[e] the complexity, duration and cost of patent infringement litigation that is already notorious for its complexity and high cost' (*Id.*).

In its supplemental brief, Intel acknowledged that the Federal Circuit adopted a new but-for materiality standard. [Doc. 103, at 1]. Specifically, the Federal Circuit examined the materiality prong of inequitable conduct in an effort to stem further the tide of such charges, and ultimately held that "the materiality required to establish inequitable conduct is but-for materiality."

*Therasense*, at \*37. The Federal Circuit held that:

Because the district court found statements made in the EPO briefs material under the PTO's Rule 56 materiality standard, not under the but-for materiality standard set forth in this opinion, this court vacates the district court's findings of materiality.

*Id.* at 49-50.

The rejected standard was broader in scope and based upon 37 C.F.R. § 1.56. Under this standard, materiality could simply be established by showing that “a reasonable examiner” would have considered it important:

This court has also previously adopted a broad view of materiality, using a "reasonable examiner" standard based on the PTO's 1977 amendment to Rule 56. *See Am. Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1362 (Fed. Cir. 1984); *see also* 37 C.F.R. § 1.56 (1977) (a reference is material if "there is a substantial likelihood that a reasonable examiner would consider it important in deciding whether to allow the application to issue as a patent").

The Report erred by failing to use the but-for standard. Instead, the Report adopted the now rejected 37 C.F.R. § 1.56 “reasonable examiner” standard, as demonstrated by the Report’s citation to a 2006 Federal Circuit opinion as supporting authority for the materiality standard to be used in deciding the motion:

At a minimum, “material” information is information that (1) “establishes, by itself or in combination with other information, a *prima facie* case of unpatentability of a claim,” or (2) “refutes, or is inconsistent with, a position the applicant takes” in either asserting patentability or opposing an argument of unpatentability. 37 C.F.R. § 1.56(b). More broadly, “material information” includes all information that a “reasonable examiner” would consider to be important to the prosecution of the patent. *See Digital Control Inc. v. Charles Machine Works*, 437 F.3d 1309, 1315-1316 (Fed. Cir. 2006).

Report [Doc. 140], at 2-3. Because the Report used the wrong standard to analyze the issue of materiality, it should be rejected.

#### **IV. The Report Shifted the Burden to STC to Fill in Intel's Missing Allegations**

Moreover, the Report failed to recognize that under Fed. R. Civ. P. 9(b), it is *Intel's burden* to plead each and every element of its inequitable conduct claim, including the materiality of the alleged misconduct. *See Exergen Corp. v. Wal-Mart Stores, Inc.*, 575 F.3d 1312, 1328-29 (Fed. Cir. 2009). Yet, as the Report acknowledges, it “was prevented” from “even starting” a materiality analysis of the alleged misconduct due to a lack of facts:

Furthermore, the Court is not aware of what was known, or not revealed, to the patent examiner when he issued the certificate of correction. These factual issues prevent the Court from even starting the materiality analysis desired by STC. In the Court's opinion the motion to dismiss is not well taken and should be denied without prejudice.

Report, at 6.

That Intel failed to plead sufficient facts even under the more liberal “reasonable examiner” standard to establish the materiality of the alleged fraudulent acts – an essential element of its fraud accusation – requires dismissal under Fed. R. Civ. P. 12(b)(6). *See, e.g., Spry v. Phillips*, 2000 U.S. Dist. LEXIS 10764 at \*8 (D. Neb. July 31, 2000) (“Dismissal is the exception rather than the rule; it occurs 'only in the "unusual case" where the complaint on its face reveals some insuperable bar to relief,' such as a missing allegation about an element necessary to obtain relief”). Indeed, courts applying the new law set forth in *Therasense*, have found that the “courts must take an active role in examining the propriety of inequitable conduct claims, and without incorporating allegations of the specific elements to be proven on the merits at the pleading stage, albeit at a lower standard of plausibility at this initial juncture, courts cannot perform this function.” *Pfizer, Inc. v. Teva Pharms. USA, Inc.*, 2011 U.S. Dist. LEXIS 90021, 54-59 (E.D. Va. Aug. 12, 2011) (citations omitted). Accordingly, STC requests that this Court follow the Federal

Circuit's lead and dismiss the fraud claim as any amendment would be futile as will be shown below. *See Zapata v. Brandenburg*, 2009 U.S. Dist. LEXIS 7822, 1-2 (D.N.M. Jan. 3, 2009).

#### **V. Intel's Allegations Cannot Survive Under the But-For Materiality Standard**

Under the new heightened "but-for" standard, Intel must establish that "but-for" the alleged fraudulent acts, the certificate of correction would not have been issued. To assist in resolving this issue, an understanding of what STC added to the '998 patent by the certificate of correction and how certificates of correction are processed by the Patent Office is helpful.

The certificate of correction STC obtained added language to the '998 patent indicating that it is a continuation-in-part (CIP) of the earlier filed '321 patent. The language added reads as follows:

This application is a continuation-in-part of U.S. Patent Application No. 8/490,101 filed June 6, 1995, which has matured into U.S. Patent No. 5,705,321, which is a continuation of U.S. Patent Application No. 08/123,543 filed September 20, 1993 and now abandoned.

The certificate did not back date the '998 patent. As the Federal Circuit has explained, CIP patents are a mixed bag of priority dates and determining what date applies is a complicated process that the PTO does not normally undertake, even when conducting a substantive examination of a patent application:

Determining the effective filing date each claim in a CIP application is entitled to can be quite complex. Since CIPs generally add new matter, the claims may be fully supported by the parent application or they may rely on the new matter for support. *See* Michael J. Meurer & Craig Allen Nard, *Invention, Refinement and Patent Claim Scope: A New Perspective on the Doctrine of Equivalents*, 93 *Geo. L.J.* 1947, 2012 n.24 (2005) (noting "[u]nder the new matter doctrine, revisions to the written description that occur after an application is filed may jeopardize the priority date derived from that application"). In fact, a CIP could contain different claims entitled to receive different effective filing dates in the same patent. There would be no reason for the PTO to undertake what could be a very time consuming written description analysis simply to pronounce the effective filing date of each claim, absent some dispute over it during prosecution.

*PowerOasis, Inc. v. T-Mobile USA, Inc.*, 522 F.3d 1299, 1305 (Fed. Cir. 2008).

Moreover, the Federal Circuit stated in *PowerOasis* that for a patent claiming CIP status back to a parent application, the patent owner bears the burden of establishing that the CIP (child) is entitled to the earlier filing date of its parent patent. *Id.* at 1306. Thus, the language include by the certificate of correction did not result in a back dating of the '998 patent. Indeed, this separate issue is included in one of Intel's other ten defenses that are part of its amended counterclaim. *See* Amended Ans., (Doc. 38], at 2 (listing lack of written description).

The Manual of Patent Examination Procedure (MPEP) sets forth how a certificate of correction is reviewed. For the general steps to be followed by the Patent Office, MPEP § 1485, entitled *Handling of Request for Certificates of Correction*, states as follows:

Otherwise, determination as to whether an error has been made, the responsibility for the error, if any, and whether the error is of such a nature as to justify the issuance of a Certificate of Correction will be made by the Certificate of Correction Branch.

MPEP § 1485. As to certificates of correction seeking to include a claim of CIP status, MPEP § 1481.03, entitled, *Correction of 35 U.S.C. 119 and 35 U.S.C. 120 Benefits*, instructs, that for this type of correction, the following is be reviewed:

For all situations other than where priority is based upon 35 U.S.C. 365(c), the conditions are as follows:

(A) for 35 U.S.C. 120 priority, all requirements set forth in 37 CFR 1.78(a)(1)<sup>2</sup> must have been met in the application which became the patent to be corrected;

(B) for 35 U.S.C. 119(e) priority, all requirements set forth in 37 CFR 1.78(a)(3)<sup>3</sup> must have been met in the application which became the patent to be corrected;  
and

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<sup>2</sup> 37 CFR 1.78(a)(1) requires that the two patents share a common owner, inventor and that the patents were co-pending at the same time.

<sup>3</sup> This section does not apply since section 119 concerns priority claims to foreign filed patents.

(C) it must be clear from the record of the patent and the parent application(s) that priority is appropriate. *See* MPEP § 201.11 for requirements under 35 U.S.C. 119(e) and 120.

MPEP § 1481.03.

As MPEP § 1481.03 instructs, the materials to be reviewed when processing a certificate of correction that seeks to insert language claiming CIP status are the **patent** (the ‘998 patent) and **parent application** (the ‘321 patent). The relevant sections of the MPEP also make clear what is not examined or determined. As shown, when a certificate of correction is processed, the prior art is not evaluated, no priority date determination is made, and the file history is not examined.

It is against this backdrop that Intel’s claim of inequitable conduct must be examined. Specifically, for the claim to survive, it must be established that the certificate of correction would not have issued “but-for” the alleged fraudulent acts, which are as follows:

1. STC did not provide a copy of the file history to the Patent Office
2. STC did not disclose prior art
3. STC wrongly stated that the mistake to be corrected was “clerical”

*See* Amended Counterclaim [Doc 38], at ¶ 89; Supplemental Brief [Doc. 103], at 3.

#### **A. STC’s Alleged Failure To Disclose The File History Was Immaterial**

Intel’s asserts that STC purposefully kept the file history of the ‘998 patent from the Patent Office in order to hide attorney argument that Intel alleges is contrary to STC’s claim that the ‘998 patent is entitled to the filing date of its parent, the ‘321 patent. This nonsensical argument is akin to arguing that this Court can never grant a motion, unless the litigants attach the entire ECF file as exhibits to the motion. Under the new heightened “but-for” requirement materiality, this claim only survives if Intel can establish that the certificate of correction would not have issued if STC had provided a copy of the file history to the Patent Office.



As indicated in the above-cited MPEP sections, a priority date determination is not undertaken by the Patent Office when processing this type of correction. Thus, any attorney argument contained in the file history touching on what priority date allegedly applies is immaterial. *See Leviton Mfg. Co. v. Universal Sec. Instruments, Inc.*, 304 F. Supp. 2d 726, 741 (D. Md. 2004) (In any event, the MPEP does not require the file wrapper to be examined prior to issuance of a certificate of correction. Rather, MPEP section 1485 simply states that the Certificate of Correction Branch will determine whether an error in a patent allows for the issuance of a certificate of correction.). Thus, the information STC allegedly withheld cannot be considered material, even if accepted as true, since it is not within the scope of information the Patent Office even considers when processing a certificate of correction. Under *Therasense*, Intel's claim that STC fraudulently hid the file history and its contents from the Patent Office cannot survive because the allegedly withheld information is immaterial to the certificate of correction process.

#### **B. The '258 Patent Is Immaterial**

The same reasoning applies to Intel's claim concerning the '258 patent, which Intel claims is invalidating prior art. Here, Intel must establish that the Patent Office would not have issued the certificate of correction if STC had disclosed the '258 patent to it. Not true. As shown above, the Patent Office does not perform a validity analysis when processing a certificate of correction. This renders the '258 patent immaterial as it, too, is not information that would not even be considered by the Patent Office when processing a certificate of correction, much less meet Intel's "but-for" burden of proof.

Nothing in Intel's allegations regarding the certificate of correction constitutes a but-for material misstatement or omission, that would have prevented the PTO from allowing the certificate of correction had it been aware of the '258 patent.

### **C. STC's Characterization of the Mistake as "Clerical" Does Not Support Intel's Claim**

Here, Intel claims that STC incorrectly described the mistake as "clerical," and as a result, it defrauded the Patent Office. Yet, again, "but-for" materiality cannot be established because the type of mistake corrected by STC – amending the '998 patent to include language stating that it was a CIP of the '321 patent – is indeed correctable by a certificate of correction. *See In re Lambrech*, 202 USPQ 620 (Comm'r Pat. 1976 ) ("Omission of a reference to an earlier application on which priority is based is a mistake 'of a minor character' which is correctable by Certificate. ... Correction would not involve the addition of new matter, since the relation between the several cases here involved is a matter of record.").

The reason labels such as "clerical" or "minor" are even used is that this language tracks 35 USC § 255 which governs certificates of correction:

35 U.S.C. 255 Certificate of correction of applicant's mistake: Whenever a mistake of a *clerical* or typographical nature, or of minor character, which was not the fault of the Patent and Trademark Office, appears in a patent and a showing has been made that such mistake occurred in good faith, the Director may, upon payment of the required fee, issue a certificate of correction, if the correction does not involve such changes in the patent as would constitute new matter or would require reexamination. . . .

35 U.S.C. § 255 (emphasis added).

But again, no matter what label is applied, the certificate of correction process may indeed be used to include a reference to a parent patent. *See Adrain v. Hypertech, Inc.*, 2001 U.S. Dist. LEXIS 19182, 8-9 (D. Utah Apr. 18, 2001) ("Adrain is correct in his contention that an inventor may rectify "a mistake of a clerical or typographical nature, or of minor character" through PTO

issuance of a certification of correction, and an inventor may use the certificate of correction process to correct his or her failure to make reference to prior patent applications. *See* MPEP § 1481; *see also* 37 C.F.R. 1.78(a)(1”).

Even assuming that STC used the incorrect statutory label “clerical” instead of “minor” is not the stuff of fraud on the Patent Office. The error STC sought to correct – the failure to include in the ‘998 patent a sentence claiming that it is a CIP of the ‘321 patent – is indeed correctable by a certificate of correction no matter how labeled, as established by MPEP § 1481, the Patent Office through an opinion of a Commissioner, and a district court.

STC’s characterization of its mistake as the statutory modifier of “clerical” cannot be the but-for reason the Patent Office issued the Certificate of Correction. Just as this Court knows the difference between a motion for summary judgment and motion to dismiss, the Patent Office knows what a request for a certificate of correction is, and has procedures for granting and denying such requests. STC’s request for the correction issued because it satisfied the statutory and regulatory requirements established by the Patent Office, not because of labeling the mistake with a modifying adjective that is derived from the controlling statutory language.

## **VI. Intel’s Eleventh-Hour Egregious Misconduct Claims are Futile**

Recognizing it cannot prove but-for materiality, Intel has asked for a chance to re-plead a new theory that alleges that STC engaged in “egregious misconduct.” *See* Doc 103, at 3. This request should be rejected since it, too, is futile. *See Zapata v. Brandenburg*, 2009 U.S. Dist. LEXIS 7822, 1-2 (D.N.M. Jan. 3, 2009).

The Federal Circuit cautioned that this exception to the but-for materiality requirement only applies in extraordinary circumstances:

Accordingly, the general rule requiring but-for materiality provides clear guidance to patent practitioners and courts, while the egregious misconduct exception gives

the test sufficient flexibility to capture extraordinary circumstances. Thus, not only is this court's approach sensitive to varied facts and equitable considerations, it is also consistent with the early unclean hands cases -- all of which dealt with egregious misconduct.

*Therasense*, at \*41.

To provide guidance as to what constitutes egregious misconduct, the *Therasense* decision provided a historical account of the evolution of the “judge-made doctrine” of inequitable conduct, noting that the defense evolved from a trio of Supreme Court cases that applied the doctrine of unclean hands to dismiss patent cases involving egregious misconduct. *Therasense*, at \*18. Specifically, the Federal Circuit noted that each of “the unclean hands cases before the Supreme Court dealt with particularly egregious misconduct, including *perjury*, the *manufacture of false evidence*, and the *suppression of evidence*. Moreover, they all involved “deliberately planned and carefully executed scheme[s] to defraud” not only the PTO but also the courts.” *Therasense* , at \*23 (emphasis added) (citing *Keystone Driller Co. v. General Excavator Co.*, 290 U.S. 240, 243 (1933), *Hazel-Atlas Glass Co. v. Hartford-Empire Co.*, 322 U.S. 238, 240 (1944), and *Precision Instruments Manufacturing Co. v. Automotive Maintenance Machinery Co.*, 324 U.S. 806, 816-20 (1945)).

If anything, STC used the wrong term in describing the mistake a “clerical” instead of “minor” since, as indicated above, using a certificate of correction to include language saying a patent is a CIP of a parent application is considered by the Patent Office to be a “mistake of a minor character.” See *In re Lambrech*, 202 USPQ 620 (Comm'r Pat. 1976).

Intel additionally argues that STC committed egregious misconduct because of an “ulterior motive” in pursuing a certificate of correction, rather than a reissue patent. Doc. 103, at 3. The truth once again lies in the statutes and rules regulating Patent Office procedure. As recognized

by Intel's amended counterclaim, the Patent Office states that a certificate of correction or a reissue are available options:

A Certificate of Correction is only appropriate under specific circumstances narrowly described in the official statutes and rules governing PTO practice. In order for this procedure to be available, "[t]he mistake must be: (1) of a clerical nature; (2) of a typographical nature, or (3) a mistake of minor character." MPEP 1481. "If the above criteria are not satisfied, then a Certificate of Correction for an applicant's mistake will not issue, and reissue must be employed as the vehicle to 'correct' the patent."

Amended Counterclaim, ¶84. Accordingly, availing itself to one of two available procedures, i.e., certificate of correction or reissue can hardly be viewed as egregious conduct. The MPEP further elaborates:

The second statutory requirement concerns the nature of the proposed correction. The correction must not involve changes which would: (1) constitute new matter or (2) require reexamination. . . . Usually, ***any mistake affecting claim scope must be corrected by reissue. A mistake is not considered to be of the "minor" character required for the issuance of a Certificate of Correction if the requested change would materially affect the scope or meaning of the patent.***

Doc. 58-1 (emphasis added). Since STC's addition of language indicating that the '998 patent was a CIP of the '321 patent did not affect its scope of patent coverage, i.e., it did not change the claim language, STC was correct in availing itself to the procedures to request a certificate of correction.

Moreover, Intel's "ulterior motive" argument overlooks the reality that the procedure used by STC is so ordinary, the Manual of Patent Examining Procedure has an entire section devoted to issuing certificates of correction of the type obtained by STC. See Amended Counterclaim, ¶84, and Doc. 58-1 (MPEP 1481.03, entitled "Correction of 35 U.S.C. 119 and 35 U.S.C. 120 Benefits"). In addition, the Commissioner of the Patent Office and a sister court of the district have recognized the propriety of patentees seeking certificates of correction of the type obtained by STC. See *In re Lambrech, supra*; *Adrain v. Hypertech, Inc., supra*.

In sum, STC's election to seek a certificate of correction is squarely within the statutory framework of the rules and regulations governing Patent Office procedure, and has been widely recognized as being proper. Intel's unpled "unclean" hands is totally lacking the recognized hallmarks of an unclean hands defense, *e.g.*, perjury, bribery, creation of evidence, or suppression of evidence.

### **VII. Other Errors in the Report**

Intel, in its supplemental brief, formally withdrew an aspect of its inequitable conduct allegations regarding an article authored the inventors. Doc. 103, at 3-4. The Report concluded that, based on its recommendation on the "correction issue" it need not reach the issue of the Brueck/Zaidi article. [Report, at 4-5 (FN3)]. It was error to conclude it need not address the separate allegation in the first instance, and it was error to not acknowledge the allegations were withdrawn.

### **VIII. Request for Oral Argument**

Given the importance of the motion, STC respectfully requests oral argument.

Dated: September 8, 2011

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**CERTIFICATE OF SERVICE**

The undersigned certifies that on the 8th day of September, 2011 the foregoing was filed electronically through the CM/ECF system, which caused all parties or counsel to be served by electronic means.

*/s/ Steven R. Pedersen* \_\_\_\_\_

Steven R. Pedersen