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

PLAINTIFF'S MEMORANDUM IN SUPPORT OF ITS MOTION FOR BIFURCATION AND EARLY TRIAL ON DAMAGES

This is a patent infringement case between STC.UNM, the patent arm of the University of New Mexico, and Intel Corporation, relating to photolithography techniques used in the manufacture of semiconductors. STC.UNM moves to bifurcate damages from liability for an early trial, prior to the mandatory settlement conference, solely on the issue of damages. Courts all over the country have used this procedure, fostering early settlements. *See* Drury Stevenson, *Reverse Bifurcation*, 75 U. Cin. L. Rev. 213, 217-219 (2006) [Ex. A]; *Angelo v. Armstrong World Indus.*, 11 F.3d 957, 964 (10th Cir. 1993) (upholding a reverse bifurcation order below).

Whereas liability is a binary determination – a party will either win or lose – the amount of damages can span a vast continuum of possible dollar numbers from a very small number to a very large one, and all the possible numbers in between. So, while the parties can each make educated estimates of the chances of winning or losing on liability, they frequently have no solid realistic information regarding the amount of money at issue in the case.

Rational settlement talks can be next to impossible when each of the parties is in its own land of the unknown. This is especially true in this case, and other high stakes patent infringement cases. Here, the revenues from the alleged infringing sales, as readily calculated from Intel's annual reports, are in the neighborhood of 100 billion dollars. Simple arithmetic tells us that a 1% royalty on such sales yields damages of $1 billion, 0.5% yields $500 million, and so on. No doubt each of the parties has its own opinion about what the final damage number is or ought to be, but neither knows what the real damage number, as determined by a jury, will be. Accordingly, neither party can go to the required settlement conference with any sound knowledge or feel for the actual dollars at stake in this case.

The measure of damages in this patent infringement case is a "reasonable royalty." Under established patent law, the royalty is determined by first assuming 1) that the patent is valid and infringed (*i.e.*, that there are no liability defenses); 2) that there is a willing licensor and a willing licensee; and 3) that there is a hypothetical negotiation between the parties. What then, would be the reasonable royalty?

STC.UNM will be seeking damages of hundreds of millions of dollars. Intel will undoubtedly argue for a number that is comparatively miniscule. Thus, as is typical in patent cases, "the two parties . . . will be far apart on a reasonable royalty." Litigation Services Handbook [Ex. B], at 16.

I. An Early Bifurcated Damage Trial Will Enhance the Likelihood of an Early Settlement

The local rules (N.M.D.R. 16.2) require a settlement conference attended by lead counsel and a party representative with "final settlement authority." The importance of the settlement conference was underscored by Judge Mechem: "[S]ettlement conferences present the best opportunity we have conceived of so far to resolve disputes with dispatch." *Schwartzman, Inc. v. ACF Indus.*, 167 F.R.D. 694, 697 (D. N.M. Aug. 2, 1996).

With the parties undoubtedly being miles apart on the stakes at issue, the likelihood of settlement is remote. Thus, STC.UNM seeks to have the issue of damages adjudicated before the mandatory settlement conference, so that both parties know what is truly at stake:

> The value of reverse bifurcation is its elimination of uncertainty and unpredictability about the stakes in any given case, thus allowing parties to assess more accurately the relative costs of continuing with the litigation. Realistic information about the value of the case does more than foster settlements. It also produces better settlements, that is, agreements more reflective of the true value of the case.

Stevenson, *Reverse Bifurcation*, *supra, at* 220 [Ex. A] (footnotes omitted).

II. A Bifurcated Damage Trial Will Save Time and Money

Patent infringement cases are notoriously expensive and time consuming for both the parties and the courts. In cases where the potential damages at issue exceed $25 million (as this case clearly does), the median litigation cost for each of the parties is $5.5 million. AIPLA Report of the Economic Survey (2009) [Ex. C]. The vast majority of that money and time is expended on liability issues, not damage issues. The parties have

estimated that a full trial in this case will take at least two weeks. However, a separate trial for damages could likely be completed in one or two days. The issues in a bifurcated damage trial would be measurably easier, as would the jury instructions regarding the damage issue, as compared with liability.

This is especially true when one considers all the liability defenses advanced by Intel. In addition to denying infringement and asserting numerous claim construction disputes, Intel has asserted a host of defenses to the validity and enforceability of the patent, charging non-compliance with seven separate sections of the Patent Statute. *See* Intel Corporation's Answer and First Amended Counterclaims to STC.UNM's Complaint ("Amended Answer") [ECF Docket No. 38], ¶¶ 15-16; and Intel Corporation's Amended Responses to Plaintiff STC.UNM's First Set of Interrogatories Nos. 1-21 [Ex. D] at 9-22.

Regarding two of those defenses, the novelty and non-obviousness of the patented invention, Intel relies on 183 "prior art" references, comprising a three-foot high stack of technical documents. The titles alone of those references require a dozen pages of Intel's interrogatory answer. *See id.* at 11-22.

In addition, Intel alleges that STC.UNM does not own the patent in suit (Amended Answer, ¶19); has committed inequitable conduct before the U.S. Patent and Trademark Office (*Id*., ¶¶ 20-45); is estopped from seeking some or all the judicial relief requested (*Id*., ¶ 46); has engaged in "patent misuse" under three different theories (*Id*., ¶ 47); has licensed Intel under the patent in suit (*Id*., ¶ 50); has "dedicated to the public" everything disclosed but not "literally claimed" in the patent in suit (*Id*., ¶ 51); and is "estopped by virtue of patent prosecution history" from asserting doctrine of equivalents infringement (*Id*., ¶ 52).

Contrast the discovery, motion practice, and trial of these issues with the corresponding tasks for damages alone, and one sees a substantial savings of time, money and effort, as the only issue would be the determination of the reasonable royalty. Intel's revenues and profits from its accused activities can be easily determined from Intel's summary business records, and may well be stipulated. Thereafter, the determination of a reasonable royalty would essentially come down to the opinion testimony from each of the parties' damages experts. The outcome of such an abbreviated damage trial – whatever it would be – would definitively inform each of the parties of the stakes in this case. The subsequent settlement conference would be held in an atmosphere of precise knowledge of damages.

III. The Court has the Authority to Bifurcate Damages

The Federal Rules of Civil Procedure explicitly allow a court to "order a separate trial of one or more separate issues, claims, crossclaims, counterclaims, or third party claims." Fed. R. Civ. P. 42(b). The Tenth Circuit has affirmed the use of reverse bifurcation, trying damages before liability, under Rule 42(b) in *Angelo v. Armstrong World Indus.* 11 F.3d at 964. The court stated that such bifurcation is appropriate where: 1) separate trials will be conducive to expedition and economy; 2) the issues are clearly separable; and 3) bifurcation will not prejudice either party. *Id.* at 964. All three factors apply here.

A. Expedition and Economy

As just discussed, bifurcation of damages, by enhancing the likelihood of early settlement, is likely to result in substantial savings of time and money for both the parties and the Court.

B. Separable Issues

It has long been recognized in patent cases that the liability and damage issues rarely overlap. "We cannot think of an instance in a patent action where the damage issue … cannot be submitted to the jury independently of the others without confusion and uncertainty, which would amount to a denial of a fair trial." *Landmark Graphics Corp. v. Seismic Micro Tech., Inc.*, 2006 U.S. Dist. LEXIS 77664, at *4-5 (S.D. Tex. Oct. 25, 2006) (*citing Swofford v. B & W, Inc.*, 336 F.2d 406, 415 (5th Cir. 1964)). "Unlike the technological information necessary to prove liability and the related defense of obviousness, financial and economic evidence will be used to prove and defend the issue of damages." *Medpointe Healthcare, Inc. v. Hi-Tech Pharmacal Co.*, 2007 U.S. Dist. LEXIS 4652, at *14 (D.N.J. Jan. 22, 2007); *see also Paine, Webber, Jackson & Curtis, Inc. v. Merrill Lynch, Pierce, Fenner & Smith, Inc.*, 587 F. Supp. 1112, 1116 (D. Del. 1984).

The damage issues in this case will be limited to determining the hypothetical negotiations establishing a royalty for licensing a patent that is presumed to be valid and infringed. *See, e.g., Lucent Techs. v. Gateway, Inc.*, 580 F.3d 1301, 1325 (Fed. Cir. 2009). By definition, then, the liability issues of validity and infringement would not be part of a damages proceeding – *i.e.,* the issues are separate as a matter of law.

C. Absence of Prejudice to the Parties

Far from prejudicing Intel, bifurcating damages will avoid prejudice to it. Professor Stevenson addressed the issue of prejudice to a defendant:

> The defendant has an incentive to stridently deny all liability at the outset of a trial, uncertain about the potential damages but certain that damages will be zero if the plaintiff fails to convince the jury about liability first. If the jurors, however, are even mildly unconvinced by the denial of culpability, they will resent the repeated, overstated denials as both dishonest and remorseless. Jury resentment is likely to augment the damages, increasing the value or stakes of the case for both parties.

Stevenson, *Reverse Bifurcation, supra,* at 219 [Ex. A].

IV. Conclusion

Bifurcating the issue of damages from liability and holding an earlier trial on just that issue will enhance the likelihood of an early settlement of this case, which would save the parties millions of dollars and save the Court months of discovery disputes, motion practice, and a prolonged trial. The motion should be granted.

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CERTIFICATE OF SERVICE: The undersigned certifies that on the 27th 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.

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