STC.UNM v. Intel Corporation Doc. 152

UNITED STATES DISTRICT COURT

DISTRICT OF NEW MEXICO

STC.UNM,

Plaintiff,

v.

INTEL CORPORATION,

Defendant.

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

INTEL'S RESPONSE IN OPPOSITION TO STC'S MOTION FOR BIFURCATION AND EARLY TRIAL ON DAMAGES

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Introduction

STC is asking the Court to do something unprecedented: hold an early trial on the damages Intel should have to pay for allegedly infringing STC's patent, before Intel has even been found liable or its defenses heard. Contrary to STC's suggestion, "reverse bifurcation" is a drastic and extraordinary procedure that has never been used in a patent case. The dearth of precedent is no surprise. Unlike a "traditional" bifurcation (in which a liability-only trial may obviate the need for a subsequent trial on damages), the damages trial in a reverse bifurcation cannot dispose of the need to try liability afterwards.

STC's proposal to stay all discovery and motion practice on liability until after the damages trial would also be impractical and waste judicial resources. The liability trial would not be held until many months after the damages trial and would require a new jury. The substantial overlap in evidence relevant to both patent liability *and* patent damages means that a later trial on liability would require substantial duplication of the earlier damages trial. In other words, STC's proposed reverse bifurcation would guarantee *increasing* the time, expense, and burden of this case for the Court, the jurors, and the parties.

Moreover, a damages trial would be unnecessarily complex if liability had not yet been established and would be far longer than the "one or two days" estimated by STC (at 4). STC accuses three separate manufacturing processes of infringing. Because the parties would not know which (if any) of the three processes might ultimately be found to infringe, the jury would have to determine damages for numerous permutations of potential liability verdicts. On these bases alone, STC's motion should be denied.

STC urges the Court to take on these unnecessary burdens, with their consequent disadvantages, on the theory that doing so will increase the likelihood of settlement. STC is

mistaken. The reason the parties are far apart on settlement is Intel's strongly held belief that it does not infringe any valid patent claim. A premature, provisional determination of damages will not and cannot change that fact. The key to resolving this case is liability—and more specifically, Intel's robust defenses. STC has already dropped six of the eight patent claims it originally asserted against Intel, and has advanced an unreasonably broad construction for the remaining two claims. [Doc. No. 113] Intel firmly believes that the outcome of claim construction will demonstrate that it does not infringe and/or that the asserted patent claims are invalid in light of extensive prior art on double-patterning lithography.

STC's motion for reverse bifurcation appears to be an attempt to divert attention from this reality, and instead jump to an unfounded presumption of liability. Intel believes the best way to resolve this matter quickly with minimal burden for the Court and jurors is to litigate it: proceed as normal with claims construction, complete necessary discovery, and move promptly to summary judgment. Any plaintiff voluntarily filing a large and complex patent infringement action would expect the Court to follow this normal course, and STC conspicuously fails to cite anything that has occurred here that should turn those expectations on their head. STC's motion should be denied.

Argument

A. Reverse Bifurcation Is an "Extraordinary" and "Drastic" Procedure

A court has discretion to order separate trials "[f]or convenience, to avoid prejudice, or to expedite and economize." Fed. R. Civ. P. 42(b). But the issues must be "clearly separable," and, regardless of the efficiency to be gained, "bifurcation is an abuse of discretion if it is unfair or prejudicial to a party." *Angelo v. Armstrong World Indus., Inc.*, 11 F.3d 957, 964 (10th Cir. 1993). Bifurcation "is not to be routinely ordered" and should

be done only "where experience has demonstrated its worth." Fed. R. Civ. P. 42(b) advisory committee's note.

Even rarer is reverse bifurcation—where damages are tried before liability. Reverse bifurcation has been called "extraordinary" and "drastic." *Nye v. Ingersoll Rand Co.*, Civ. No. 08-3481, 2011 WL 4017741, at *3 (D.N.J. Sept. 8, 2011) (quoting *Campolongo v. Celotex Corp.*, 681 F. Supp. 261, 262 (D.N.J. 1988), and *Walker Drug Co. v. La Sal Oil Co.*, 972 P.2d 1238, 1245 (Utah 1998)). "[W]hile so-called reverse bifurcation has found some favor in the arena of complex personal injury torts, it remains relatively uncommon in ordinary litigation." *Nye*, 2011 WL 4017741, at *3; *see also Village of Stillwater v. Gen. Elec. Co.*, No. 09-CV-228 (DNH/DRH), 2010 WL 4025601, at *4 (N.D.N.Y. Oct. 13, 2010) ("reverse bifurcation has been characterized as uncommon and most effective in highly complex mass tort cases").

Although STC asserts (at 1) that "[c]ourts all over the country" have ordered reverse bifurcation, it cites only one such case—an asbestos suit in which the defendant did not object to the procedure. *Angelo*, 11 F.3d at 964-65. STC has not identified a single patent case involving reverse bifurcation (and Intel's own research in connection with this motion has not revealed any). The absence of precedent is no surprise. Because (as discussed below) evidence relating to liability is highly relevant to determining patent damages, it simply makes no sense to try damages before liability in a patent case.

B. This Case Does Not Meet Any of the Requirements for Such a Rare Procedure

1. Reverse bifurcation would not be efficient or economical

"Regular" bifurcation—where liability is tried first and damages second—can make sense because the first trial may definitively obviate the need for the second. If the jury returns a defense verdict on liability, the case is over, and the time and expense of trying the

issue of damages is avoided entirely. In contrast, the first trial in a reverse bifurcation cannot be dispositive. Regardless of the amount of damages that are provisionally awarded, liability would still have to be established at a second trial. The presumption underlying STC's motion (at 3) is not that an advance damages trial will conclusively eliminate the need for a liability trial, but rather that it will make a settlement more likely, regardless of the actual merits of STC's case.

STC is wrong. This is not a case where the obstacle to settlement is uncertainty about damages. Rather, as STC itself notes (at 4), Intel has numerous defenses to liability. A provisional damages determination based on various hypothetical liability assumptions adds no clarity to the parties' drastically different views on liability. Thus, the facts are analogous to those in *Nye*, where the court denied a request for reverse bifurcation:

> [T]here is no reason to believe that a damages verdict will lead to complete settlement. Plaintiffs . . . face serious challenges to their claims against Ingersoll Rand. Plaintiffs offer no real reason why Ingersoll Rand would abandon potentially meritorious defenses even after a significant damages verdict.

2011 WL 4017741, at *4.

After the Court issues its claims construction ruling, Intel anticipates filing motions for summary judgment on noninfringement and invalidity. Not only will dispositive motion practice require far less money, Court and jury time, and duplication of effort than an advance damages trial would entail, but the Court's ruling on whether STC can even proceed to trial is far more likely to lead to resolution than a jury's provisional determination of damages. In addition, now that STC's repeated attempts to eliminate Intel's inequitable conduct counterclaim have been rejected, concurrent discovery on that subject may also bring significant settlement pressure. In contrast, STC's reverse bifurcation proposal would

actually drag out the litigation and make it more expensive. The court in *Village of Stillwater* cited that reason in denying a motion for reverse bifurcation:

> Given the periods of time required for each separate trial, it appears that separate juries would determine the issues in the different phases. Moreover, each phase is likely to experience additional delay beyond the time required for discovery and motions at each stage by interlocutory appeals, or litigation regarding motions for leave to pursue such appeals. In short, the cumbersome procedures proposed here will more likely extend the litigation and increase the costs to the parties and the Court rather than compress and reduce them.

2010 WL 4025601, at *5.

Serious consideration of reverse bifurcation has been reserved for cases in which the cost of litigation would far surpass the amount of damages being sought. In such circumstances, litigating liability could be a lose-lose proposition for both parties. That is not the situation here. By its own account (at 2), STC is seeking hundreds of millions in damages—orders of magnitude greater than Intel's potential litigation costs.

2. The liability and damages issues will inevitably overlap here

Reverse bifurcation is disfavored in patent cases because a "damages trial cannot be conducted in an evidentiary vacuum":

> "A jury will have to be familiar with the patents at issue, the products, and the . . . industry itself. Therefore, much of the evidence that can be expected to be introduced in a trial on damages will be duplicative of the evidence that can be expected to be presented in a trial on liability."

Real v. Bunn-O-Matic Corp., 195 F.R.D. 618, 624 (N.D. Ill. 2000) (denying motion to bifurcate patent case) (quoting *THK Am., Inc. v. NSK Co.*, 151 F.R.D. 625, 630 (N.D. Ill. 1993)).

Moreover, as STC acknowledges (at 2), its damages would be limited to a "reasonable royalty" if it were to prevail on liability in this case. Under the patent law, a

"reasonable royalty" is a specific measure of damages based on a hypothetical negotiation between the patent-holder and the alleged infringer that would have taken place when the first infringement allegedly occurred. *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 868 (Fed. Cir. 2010). The courts have adopted a "comprehensive" list of fifteen criteria for determining a reasonable royalty (known as the "*Georgia Pacific* factors" for the name of the case in which they were first articulated). *Id.* at 869. STC cannot dispute that some of the *Georgia Pacific* factors directly relate to evidence and factual determinations that must come from the liability phase of the case. *THK*, 151 F.R.D. at 630 ("***evidence necessary to prove damages . . . on a theory of 'reasonable royalty' . . . may also relate to liability issues***") (emphasis in original).

For example, one of the *Georgia Pacific* factors is "[t]he utility and advantages of the patent property over the old modes or devices." *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1335 (Fed. Cir. 2009) (citation and internal quotations omitted). Evidence relevant to that factor is also relevant to Intel's liability defense that STC's patent is invalid because the alleged invention was obvious in light of the prior art. As STC notes (at 4), Intel has identified an extensive amount of prior art that it believes renders the STC patent invalid. Under STC's proposal, Intel would have to introduce that evidence twice, first to the damages jury to determine the reasonable royalty, and then again to the liability jury to determine whether the patent is invalid for obviousness. *See Masimo Corp. v. Philips Elecs. N. Am. Corp.*, 742 F. Supp. 2d 492, 497 (D. Del. 2010) ("bifurcation would force the parties to, among other duplicative activities, . . . utilize identical information and witnesses to rebut obviousness in the liability phase as well as demonstrate that Masimo's inventions were significant advances over the prior art in the damages phase"); *Joy Techs., Inc. v. Flakt, Inc.*, 772 F. Supp. 842, 848 (D. Del. 1991) (denying motion to bifurcate damages case because of

"overlapping evidence on the issue of evaluation of prior art, first as it pertains to validity and infringement of the '873 patent, and secondly as it pertains to damages for infringement, if infringement is found").

Similarly, evidence of sales of microprocessors fabricated at the allegedly infringing process nodes (45 nm, 32 nm, and 22 nm) would be relevant both to obviousness and to a reasonable royalty. *See Masimo Corp.*, 742 F. Supp. 2d at 497 (denying motion to bifurcate because, among other things, the parties would have to "present identical sales information regarding Masimo and Philips' products to rebut invalidity and demonstrate royalty damages"); *Joy Techs.*, 772 F. Supp. at 848 ("there is at least minimally overlapping evidence on commercial success first as it pertains to infringement and second as it pertains to damages").

3. Reverse bifurcation would prejudice Intel

Finally, STC's proposal would be "severely prejudicial" to Intel because, "[i]n allowing [STC] to litigate damages, prior to liability, such a reverse presentation runs the risk of potential juror confusion." *Village of Stillwater*, 2010 WL 4025601, at *6; *accord Nye*, 2011 WL 4017741, at *4 (denying motion to bifurcate; "any substantial alteration of the natural order of a trial, particularly one which requires the jury to render partial seriatim verdicts may itself be a source of confusion or error").

Juror confusion is particularly likely here because STC asserts that three different Intel manufacturing processes infringe. Given that there would have been no determination as to which (if any) of Intel's processes might infringe, the jury would have to be instructed to determine damages for numerous permutations of potential liability verdicts (e.g., the 45 nm process is found to infringe but 32 nm and 22 nm are not; 45 nm and 32 nm are found to infringe, but 22 nm is not; etc.). Nor is it a simple matter of determining a damages amount

for each accused process and then adding them together if one or more are ultimately found to infringe. Instead, the "reasonable royalty" determination requires a finely tuned assessment of how the parties would have conducted the hypothetical negotiation in light of the context supplied by the liability trial, and based on liability findings such as the date of first infringement. A jury could also find that STC would have licensed the patent to Intel for a single lump-sum amount, regardless of how many processes practiced the patent or how many products were manufactured on the processes. Contrary to STC's assertion (at 5), a damages trial held prior to the determination of liability would be quite complex.

Intel faces further prejudice from damage to its reputation and business goodwill if STC were to obtain a provisional determination of damages. Such a result would be widely reported. Undoubtedly, the press and the public would pay little (if any) attention to the fact that Intel had not actually been found liable and that it was not required to pay that amount. Intel would have to wait months, if not years, before it could clear its name.[1]

Conclusion

STC's request for reverse bifurcation makes no sense and would severely prejudice Intel. It would increase, not reduce, the amount of time and money it will take to resolve this case, and would be an unnecessary burden on the Court and the jurors of New Mexico. The motion should be denied.

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[1] Although reverse bifurcation is inappropriate and unworkable here, Intel is open to discussing later whether this case may warrant a traditional bifurcation, where the trial is broken into two phases in which liability is tried first, followed immediately (if necessary) by the damages and willfulness phase. Such a procedure would not be burdened by the deficiencies of STC's proposal. For example, because the damages phase would follow immediately after liability, there would be no need to call a second jury, and the evidence introduced during the liability phase would not have to be repeated. Whether that type of bifurcation will be of assistance to the Court and appropriate in this case need not be decided now.

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Respectfully submitted,

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that on October 11, 2011, the foregoing document was electronically filed with the Clerk of Court using the CM/ECF system, which will automatically send notification of such filing to all counsel who have entered an appearance in this action.

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