UNITED STATES DISTRICT COURT

DISTRICT OF NEW MEXICO

STC.UNM,

Plaintiff,

v.

INTEL CORPORATION,

Defendant.

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

INTEL CORPORATION'S REPLY IN SUPPORT OF ITS MOTION TO AMEND THE INTERIM PROTECTIVE ORDER

Introduction

Limiting STC to a Single Paper Copy. STC is asking the Court to permit Dr. Chris Mack to keep documentation relating to Intel's Top Secret, multibillion-dollar fabrication process technology at his house. Doing so would make Dr. Mack the only person on Earth who has that right. STC seeks greater access for Dr. Mack than Intel gives its senior technical executives and its own litigation experts. STC has offered no reason why its expert deserves such special dispensation or why Intel should be exposed to such great risk. STC's justifications for such a radical departure from Intel's security policy are that Dr. Mack can be trusted and that STC would rather not have to pay for Dr. Mack to travel to Chicago from his home in Austin. Those rationales cannot justify the huge risk to Intel that copying and carrying these documents around would inevitably entail. The United States government would never permit its top secret information to be subjected to such security risks. Intel should not be required to do so either.

Extending the Prosecution Bar. STC is wrong in arguing that extending the prosecution bar would be "redundant" of existing law. The "protections" STC is pointing to would require Intel to prevail in litigation after a tainted patent covering Intel technology is issued where Intel would have to establish by clear and convincing evidence that the patent was invalid. In contrast, the prosecution bar would serve to prevent a tainted patent from issuing in the first place. The whole point of the prosecution bar is to obviate the need for litigation, with all its inherent risks and expenses.

STC's other argument—that Intel is looking to "deter STC's lawyers and technical expert from working on a case that would restrict their future careers"—is unsupported and hyperbola. STC's expert and attorneys will work on this case no matter the outcome of this motion. As the motion made clear, the only reason Intel seeks to extend the prosecution bar is to address the risks posed by STC's demand for discovery into research and development for the future process technologies at 14 nm and 10 nm, which will not be in commercial production before the patent at issue expires. If STC's demand for such discovery is denied, there will be no need to extend the prosecution bar.

Denying STC's request for discovery into 14 nm and 10 nm research is still the best option because the information is not relevant to the claim for relief that STC has asserted, and the harm suffered by Intel from misuse of the information (through inadvertence or otherwise) would be severe. STC seeks no injunctive relief to stop the ongoing research. Its sole requested remedy is a money judgment awarding a reasonable royalty. Such a royalty is set based on what a willing licensee would have paid to practice the patent beginning in ***2007***, when the alleged infringement began. Lead-time effects from un-commercialized research in 2011 and 2012,

when the patent will expire, are beside the point. Indeed, every lead-time case that STC has cited addresses *lost profits*, not a reasonable royalty calculation. Those lead-time cases are inapposite here because STC does not make any products or otherwise compete with Intel and therefore cannot seek lost profits as a matter of law.

Thus, the best route would be to deny STC's motion to compel 14 nm and 10 nm discovery. But if the Court is not inclined to do that, it should extend the prosecution bar to the latter of (i) December 31, 2016, and (ii) one year after the final completion of this case.

Discussion

A. The Court Should Not Permit STC's Expert to Take Home a Copy of Intel's Top-Secret Manufacturing Process Information

Intel has submitted uncontroverted evidence that (1) the information about its process technology demanded by STC is top secret, (2) no one at Intel—not even its most senior executives—is permitted to keep copies of that information at home, and (3) disclosure of the information, whether through inadvertence or something more sinister, would be catastrophic for Intel.

Because of the sensitivity of that information, Intel is making it available for review and study on a stand-alone computer in its counsel's office. Intel is also willing to allow STC to have a single paper copy of "reasonable portions" of those materials, which may be kept by STC's counsel. Intel even offered to set up the stand-alone computer in Intel's counsel's Dallas office to be close to Dr. Mack's home. STC, however, requested that the computer be installed in Intel counsel's Chicago office rather than Dallas, and Intel has agreed.

STC nevertheless accuses Intel (at 3) of "obstructionist tactics" because Intel opposes permitting STC to make a second paper copy of excerpts from the electronic materials to be kept

at Dr. Mack's house. STC complains that Dr. Mack will have to travel from Austin to Chicago to see the paper copy. But that complaint rings hollow. After all, Dr. Mack will have to travel to Chicago to review the original electronic copy of the materials because the stand-alone computer is in Chicago at STC's own request. Apparently, traveling to Chicago to review the materials at issue is not an inconvenience for Dr. Mack when STC prefers it. And contrary to STC's protestation (at 3), the cost of such travel is hardly "significant" in comparison to the many millions of dollars in damages that STC is undoubtedly seeking from Intel in this case.

Moreover, STC does not—and cannot—challenge Intel's evidence that the materials are top secret and extremely valuable or that Intel goes to great lengths to protect their confidentiality. STC proffers no evidence that Intel is being "obstructionist" or that Intel is acting in anything other than good faith in trying to protect its multibillion dollar investment. Nor has STC introduced any evidence that that multibillion dollar investment would be secure in Dr. Mack's house. Intel knows nothing about the location of his home, any security system he may have, or the safe he claims to have procured. It defies logic that such measures could be adequate. The United States government would never allow such a breach of security concerning its top secret information. Intel should not be compelled to do so either.

STC argues (at 3-5) that Dr. Mack should be entitled to keep a copy of these materials in his house because *another* defendant in a *different* case previously allowed him to keep a copy of similar information and because protective order templates in some jurisdictions include provisions allowing an expert to keep a copy of source code. But that proves nothing. Neither point undercuts Intel's evidence of the value and secrecy of the information or negates the risk posed if Dr. Mack is allowed to keep a copy in his home.

STC further contends (at 5) that Intel's concerns are unwarranted because Dr. Mack would be keeping only a "small portion of the entire manufacturing process" at his house. But even "small portions" of Intel's secret process technologies are of immense value, and thus few Intel employees have access to anything more than a "small portion." [Bohr Decl. ¶ 7][1]

B. The Patent Prosecution Bar Should Be Extended If Intel Is Ordered to Provide Discovery About Its Future 14 nm and 10 nm Manufacturing Processes

The parties have agreed that a prosecution bar is appropriate in this case. They even agree as to the length of that bar if discovery is limited to Intel's 45, 32, and 22 nm processes. The only question is whether the bar should be extended if the Court grants STC's request for discovery on Intel's 14 and 10 nm processes, which are years away from commercialization.

STC first contends (at 6-7) that the extended bar would be "redundant to existing law." According to STC, Intel would be able to invalidate a patent that was improperly based on its confidential information because Intel would have been the "first to invent" and because the misuse could support a claim of inequitable conduct. But the same could be true for any prosecution bar, regardless of its length. Yet prosecution bars are routinely entered in patent cases, and STC itself agrees that there should be one here. The reason is quite simple: a prosecution bar is a prophylactic measure that averts the need to litigate those questions. Moreover, in any such future litigation Intel would bear the heightened burden of having to prove by clear and convincing evidence that the patent asserted against it was improperly based on Intel's own technology. *z4 Techs., Inc. v. Microsoft Corp.*, 507 F.3d 1340, 1352 (Fed. Cir.

[1] In addition, STC's proposed language for the protective order is unacceptable because, as phrased, experts other than Dr. Mack—yet unknown—would also be permitted to keep these materials in their homes. [*See* STC Opp. at 6 (asking to allow STC "technical experts" (plural) to keep copies of the materials at their offices)]

2007) ("Microsoft bore the burden of demonstrating by clear and convincing evidence that BP 98 constituted an actual reduction to practice of the invention claimed in z4's patents.")

STC's only other argument against extending the bar (at 7-8) is that doing so would "deter STC's lawyers and technical expert from working on a case that would restrict their future careers." STC has not introduced any evidence that its technical expert or any of its attorneys would withdraw from the case if the prosecution bar were extended. Tellingly, none of them has submitted a declaration to that effect. Nor has STC provided evidence that it would suffer any prejudice. The prosecution bar applies only to patent applications relating to "semiconductor patterning." [Doc. No. 63 at § 10] Neither STC's technical expert nor any of its lawyers has submitted a declaration expressing any past, present, or intended future involvement in prosecuting patent applications relating to semiconductor patterning. The prosecution bar will simply ensure that the situation stays that way. Indeed, the importance of the prosecution bar would only be confirmed if any of them intended to make a living prosecuting patents concerning semiconductor double patterning with Intel's secret process technologies in their heads.

In any event, if STC is truly concerned about the impact of extending the prosecution bar, it should simply put off its demand for discovery on the nascent 14 and 10 nm processes that are only in theoretical research and will not be used to make any commercial products until long after the patent has expired. Those processes, which are years away from commercialization, have no real relevance to the single claim for relief that STC asserts in this case. STC seeks money damages, not an injunction to stop Intel's research. Moreover, STC cannot seek lost profits from Intel's sales after the patent expires because STC makes no products and does not

compete with Intel for such sales. Thus, STC's sole avenue for seeking money damages is through a reasonable royalty calculation.

The lead-time cases cited by STC all relate to lost profits damage models. Indeed, STC has failed to cite a single case where the details of research that will not be commercialized before the asserted patent expires played any role whatever in a reasonable royalty calculation. That gaping hole in STC's argument comes as no surprise. Reasonable royalties are determined by asking how a hypothetical negotiation would have gone between a willing licensor and licensee at the time the infringement began. *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 868 (Fed. Cir. 2010). Uncommercialized research several years after the alleged infringement began has no place in that analysis because (i) the royalty rate is set based on the date when infringement began (here 2007) and (ii) the royalty rate is applied against actual infringing sales (which can occur, if at all, only before the patent expires). *Riles v. Shell Exploration & Prod. Co.*, 298 F.3d 1302, 1313 (Fed. Cir. 2002) ("A reasonable royalty determination for purposes of making a damages evaluation must relate to the time infringement occurred, and not be an after-the-fact assessment."). Intel has already agreed to provide discovery on the research at 22 nm that is expected to lead to sales of accused products within the term of the patent. Accordingly, STC is being given the discovery it has a legitimate purpose to seek.

Conclusion

The Court should limit STC to one copy of Intel's highly confidential manufacturing process information and require that copy to be kept at counsel's offices. And if the Court grants STC's motion to compel discovery about Intel's future 14 nm and 10 nm manufacturing

processes, the Court should extend the prosecution bar in the protective order to the latter of (a) December 31, 2016, and (b) one year after the final completion of this case.

Respectfully submitted,

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Certificate of Service

The undersigned hereby certifies that on April 26, 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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