

Keywords: Interference; Section 284, Section 285, attorney fees, enhanced damages, treble damages, and willful infringement

General: Plaintiff is entitled to enhanced damages for infringement of patents for wireless e-mail transmission system, since defendant's investigation of infringement accusations was insufficient to meet its duty of care, and in view of its significant investment income from infringing products, defendant can withstand award of enhanced damages.

NTP Inc. v. Research In Motion Ltd.
67 U.S.P.Q.2d 1594 (E.D. Va 2003)
May 23, 2003

I. Facts

NTP sued RIM for patent infringement. Specifically, NTP alleged that RIM's BlackBerry products infringed several NTP patents. RIM's products were found to infringe certain claims on summary judgment and certain other claims at trial. Furthermore, the jury made an express finding that RIM willfully infringed NTP's patents. Accordingly, NTP filed a series of post-trial motions seeking enhanced damages and attorney fees, as well as prejudgment and postjudgment interest. Specifically, NTP seeks treble damages and prejudgment interest calculated at the prime rate.

II. Issues

- A. Was RIM's conduct sufficiently egregious to warrant enhanced damages and, if so, in what amount?
- B. Is the lawsuit an "exceptional" case that may qualify for an award of attorney fees and, if so, in what amount?

III. Discussion

- A. RIM's conduct was egregious enough to warrant enhanced damages, but not so egregious as to warrant trebled damages.

Under 35 U.S.C. § 284, "the court may increase the damages up to three times the amount found" if the jury finds that the defendant willfully infringed the patents-in-suit. Enhanced damages not only operate as a punitive measure against infringing defendants, but they also serve an overreaching purpose as a deterrence of patent infringement. In assessing enhanced damages under Section 284, it is first necessary that the fact finder determine that the defendant is liable for willful infringement, although such a finding does not *mandate* that the court award enhanced damages. Rather, the court must engage in a separate analysis to determine whether the egregiousness of the defendant's conduct warrants enhanced damages and, if so, the extent of those damages. Thus, regardless of the jury's findings, the decision whether to award enhanced damages is within the sound discretion of the court.

When addressing the issue of enhanced damages, courts must consider factors that render a defendant's conduct more culpable, as well as factors that are mitigating. Here, the court relied on the Federal Circuit's opinion in *Read Corp. v. Portec, Inc.*, 23 U.S.P.Q.2d 1426 (Fed. Cir. 1992), which established that courts should consider the following factors together in determining the degree of an infringer's culpability: (1) whether the infringer deliberately copied the ideas or design of another; (2) whether the infringer, upon notice of the other's patent protection, investigated the scope of the patent and formed a good-faith belief that it was invalid or that it was not infringed; (3) the infringer's behavior as a party to the litigation; (4) the infringer's size and financial condition; (5) the closeness of the case; (6) the duration of the infringer's misconduct; (7) any remedial action by the infringer; (8) the infringer's motivation for harm; and (9) whether the infringer attempted to conceal its misconduct.

The district court addressed each of these factors in order. In regard to the first factor, the court found no evidence that RIM copied any of the NTP patents. Therefore, the court determined that the absence of copying by RIM is a mitigating factor. (-1)

In regard to the second factor, the court noted that, upon receiving actual notice of another's patent, a potential infringer has an affirmative duty of care that normally requires the potential infringer to obtain competent legal advice before infringing or continuing to infringe. The court further noted that an opinion of non-infringement and/or invalidity must be both competent and objective, as well as being premised upon the best information known to the defendant. Non-objective opinions, i.e., those prepared by in-house counsel, as well as oral opinions, carry little weight. In this case, RIM contended that upon receiving NTP's notice letter, its lead in-house counsel, along with an in-house patent attorney and two technical assistants, conducted an investigation. The investigation allegedly included the reading of the patent specifications, a review of all independent claims, and discussions with the technical assistance regarding RIMs products. The investigation allegedly concluded with two oral reports that were not reduced to writing, because the lead in-house counsel surmised that there was no need to reduce them to writing. However, based on the evidence advanced at trial, the court found that it was difficult to determine whether RIM actually conducted any investigation at all due to various inconsistencies in the witnesses' testimony, as well as the failure to produce any corroborating evidence. Accordingly, the court found that even assuming that RIM conducted an investigation, it was not sufficient to meet its required duty of care because the oral opinion was not objective and not competent. (+1)

In regard to the third factor, the court found that RIM consistently engaged in a variety of questionable litigation tactics, such as dilatory document production, a last minute cancellation of a deposition, the filing of premature motions for summary judgment before a claim construction, numerous summary judgment motions challenging such claim construction, and a misleading demonstration of an allegedly prior art system to the jury. Accordingly, the court found that RIM's litigation behavior was sufficiently egregious to be considered an enhancing factor. (+1)

In regard to the fourth factor, the court noted that enhanced damages should not be awarded if it would severely affect the defendant's financial condition or unduly prejudice the defendant's non-infringing business. Here, despite a recent quarterly loss by RIM, the court found RIM to be a large business entity with substantial revenues and cash reserves. The court further found that the BlackBerry line of products is the core of RIM's business, thus resulting in little prejudice to RIM's non-infringing business. Therefore, the court concluded that RIM is large enough to withstand enhanced damages in this case. (+1)

In regard to the fifth factor, the court noted that enhanced damages should not be awarded if the defendant puts forth a meritorious good faith defense and a substantial challenge to infringement. While stopping short of calling RIM's defenses frivolous, the court found that RIM's infringement was clear and that RIM's expert on invalidity could not correlate any piece of prior art to the specific elements and limitations of the asserted claims. Consequently, the court found that this was not a close case. (+1)

In regard to the sixth factor, the court appeared to be vague in its assessment of the duration of RIM's misconduct. Despite some evidence of infringement extending over three years, willful infringement extending over two years, and blatant post-verdict infringement, the court found that the duration of RIM's infringing activities was not so egregious to constitute an enhancing factor, yet too long to be a mitigating factor. Therefore, the court found this factor to be neutral. (0)

In regard to the seventh factor, RIM acknowledged that its products were unchanged, but argued that it is working on a design around, although such efforts have not been successful thus far. The court found that RIM's failed design around attempts did not benefit NTP in any way, so the court concluded that RIM had not engaged in any remedial action designed to benefit NTP by reducing infringing activities. Therefore, the court concluded that the failure to engage in such remedial action constitutes an enhancing factor. (+1)

In regard to the eighth factor, both parties agreed that RIM had no motivation to harm NTP. Therefore, the court found this to be a mitigating factor. (-1)

Finally, in regard to the ninth factor, the court found no evidence that RIM attempted to conceal any misconduct, and thus held this to be a basis for mitigating enhanced damages. (-1)

Based on its assessment of the *Read* factors (total 2/9), the court enhanced the jury's compensatory damages award by a factor of 0.5, as well as post-verdict compensatory damages by a factor of 0.5.

- B. The court found this case to be exceptional and awarded NTP the majority of its attorney fees.

Under 35 U.S.C. § 285, a court may award reasonable attorney fees to the prevailing party in exceptional cases. The purpose of this section is to award attorney fees in cases where there is a finding of unfairness or bad faith in the conduct of the losing party, or some other consideration of similar force, which makes it grossly unjust that the winner of the particular lawsuit be left to bear the burden of its counsel fees which prevailing litigants normally bear. When considering a request for attorney fees under Section 285, the trial judge undertakes a two step inquiry to determine (1) whether there is clear and convincing evidence that the case is "exceptional" and (2) if so, whether an award of attorney fees to the prevailing party is warranted. The first step is a question of fact reviewed for clear error, while the second determination is within the discretion of the trial judge reviewed for abuse of discretion. However, these two steps are interrelated, as the amount of the attorney fees depends on the extent to which the case is exceptional. The district court correctly noted that an express finding of willful infringement under Section 284 provides a sufficient basis for the award of attorney fees under Section 285.

In this case, the court found that the jury's express finding of willful infringement, standing alone, is a sufficient basis to award attorney fees. Because of this finding, the court found that RIM must put forth a showing as to why attorney fees are not warranted in this case. RIM advanced an interesting and somewhat compelling argument in this regard. RIM noted that when NTP filed suit, it claimed infringement of eight patents having a total of over 2,400 claims. Under pressure from RIM, NTP reduced the number of claims to 500 shortly before the *Markman* hearing, to 31 in response to a subsequent motion to compel, and to 16 on the eve of trial. Accordingly, RIM makes two arguments: (1) a substantial portion of the fees accumulated by NTP were related to the numerous claims that were ultimately not asserted at trial; and (2) because NTP ultimately pursued the infringement of only 16 claims at trial, RIM should be considered the prevailing party. Although the court found RIM's argument with respect to being the prevailing party a "stretch," it found the argument based on the legal fees related to the non-asserted claims to be somewhat persuasive. However, the court further found that the vast majority of NTP's fees were accumulated by other aspects of the litigation, including dealing with RIM's dilatory discovery tactics and burdensome motion tactics. Accordingly, the court reduced NTP's award of attorney fees by only 20%.