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NTP faces crucial patent challenge

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NTP Inc. followed the massive $612.5 million settlement of its patent infringement case against BlackBerry maker Research in Motion Ltd. in 2006 with 13 new infringement lawsuits against technology giants. In each of these cases, the company claims infringement of its patents related to delivering electronic mail over wireless communications systems.

But a sticky patent law question is holding them up. At issue is a collision between federal court rulings on patentability and the patent re-examination process that takes place in the U.S. Patent and Trademark office and its appeals board. In a re-examination, the inventor or another party — often a litigation adversary — asks the patent office to verify whether already issued patents are valid. In rare instances, the commissioner of patents initiates the process. The resulting rulings can then be appealed to the patent offices' Board of Patent Appeals and Interferences, which, in turn, can be appealed to the U.S. Court of Appeals for the Federal Circuit. But federal courts routinely rule on patent validity in infringement cases, and they sometimes reach different conclusions than the patent office and its appeals board.

That's what happened with NTP's patents. The patent appeals board made adverse validity findings against eight related NTP patents, including the five that NTP accused Research in Motion of infringing, and the company is appealing many of those findings. The outcomes of its pending infringement cases depend on how the Federal Circuit rules on these appeals.

NTP, which is a patent holding company — an organization that doesn't commercialize its patents, but rather uses them to demand licenses or file lawsuits — originally sued Research in Motion in the Eastern District of Virginia in November 2001. A year later, the jury awarded NTP $23.2 million.

While NTP and Research in Motion engaged in the usual post-trial tussles, the commissioner of patents initiated a re-examination of five NTP patents in December 2002, including three involved in the case. Research in Motion followed by filing, between January 2003 and September 2005, at least one re-examination request for each of the eight related NTP patents.

During Research in Motion's re-examination filing spree, Judge James Spencer of the Eastern District of Virginia issued a final judgment in August 2003 awarding $53.7 million to NTP. That broke down to $33.4 million in compensatory damages, $4.2 million in attorney fees, roughly $14 million in enhanced damages and about $2 million in prejudgment interest.

Spencer's final order also included a permanent injunction that raised the stakes for Research in Motion. The injunction, which ordered the company to stop infringing NTP's patents until they expired, would have shut down U.S. BlackBerry service.

Spencer's injunction was stayed during Research in Motion's Federal Circuit appeal, which began in September 2003 and ended with an August 2005 order after rehearing. The Federal Circuit affirmed the district court's denial of Research in Motion's motion for judgment as a matter of law. In the same order, the Federal Circuit reversed the district court's infringement judgment in some respects with regard to five patents. The appeals court remanded the case for a review of whether the jury verdict, and consequently the injunction or damages, should be changed

because of its ruling.

The case was never retried, because the two companies signed their settlement in March 2006, which effectively ended Research in Motion's interest in NTP's patents.

THE RE-EXAMINATIONS

But the re-examination process that Research in Motion helped launch has had a seismic impact on NTP's efforts to go after more alleged infringers.

A wide range of companies are interested in whether enough of NTP's patent claims survive Federal Circuit review for the company to continue its district court cases, said Craig Smith, a partner at Cambridge, Mass.-based Lando & Anastasi, who isn't involved in any of the NTP cases.

"It's a big issue for several industries, whether it's wireless companies or [other] companies that make devices that are receiving e-mails wirelessly," Smith said. Companies "are concerned about being within the sights of NTP.

"So many of [NTP's] claims were rejected by the [patent appeals board]," Smith said. "Everyone is waiting to find out what happens at the Federal Circuit."

After scoring the Research in Motion settlement, NTP filed the 13 new patent infringement cases in the Eastern District of Virginia between 2006 and 2010. The cases accuse the defendants of infringing eight NTP wireless e-mail patents — including the five the company used in litigation against Research in Motion.

Defendants in these cases include wireless carriers AT&T Mobility LLC, Cellco Partnership (which does business as Verizon Wireless), Sprint Nextel Corp. and T-Mobile USA Inc. They also include mobile phone manufacturers such as LG Electronics MobileComm U.S.A. Inc., Motorola Inc. and Palm Inc. NTP is further targeting other top smartphone industry players, including: Alltel Corp., which has since been acquired by Verizon Wireless, Apple Inc., Google Inc., HTC Corp., Microsoft Corp. and Yahoo! Inc.

While NTP was gearing up for a new litigation campaign in 2006, the patent office issued final rulings on all eight patents in re-examinations taking place in February through December of that year. The patent appeals board affirmed the patent office's rejection of all the issued claims in six of the patents and many of the issued claims in the other two patents. The appeals board also made rulings on many claims that were added during the re-examination process, but NTP isn't appealing any rejections of new claims. The company believes its patents are stronger and wants the Federal Circuit to overturn a wide swath of the patent appeals board's rejections.

The Virginia infringement cases were stayed during the appeal of the re-examinations before the Federal Circuit. On Jan. 18, Spencer, now chief judge of the Eastern District of Virginia, partially lifted the stay for the four wireless carriers, including Sprint Nextel and T-Mobile, for limited discovery. The discovery is restricted to these defendants' "pipeline defense," the argument that they're not liable for direct infringement because they're not performing all the steps of the patents. Spencer wrote that a magistrate judge suggested the partial lift because the question "is inhibiting meaningful settlement negotiations over which is he is presiding."

UP TO THE FEDERAL CIRCUIT

NTP's Federal Circuit cases are slated for oral argument on Feb. 10. If the Federal Circuit reverses the patent appeals board on various aspects of its decisions, NTP's stayed cases "would at some point come back to life," acknowledged Michael Markman, a San Francisco partner at Washington-based Covington & Burling who represents Palm Inc. in *NTP Inc. v. Palm Inc.,* one of the Eastern District of Virginia infringement cases.

"That said, I think the [patent appeals] board made the right decision, and the likelihood is that the Federal Circuit will affirm the board," Markman said.

NTP's lawyers for the infringement cases, at Richmond, Va.-based Christian & Barton and New York's Hughes Hubbard & Reed, referred questions to the company. A spokeswoman for NTP declined to comment.

Federal Circuit rulings upholding the patent appeals board would deeply wound NTP, according to intellectual property lawyers. It would be a major loss, said Scott Kamholz, a patent and trademark lawyer at Boston's Foley

Hoag, who isn't involved in any of the cases. "They may be wanting to sue other companies and think there are other companies infringing," Kamholz said. "If they lose on appeal they can't do it."

Losing at the Federal Circuit would also probably affect NTP's "ability to extract royalties from others going forward on those patents," said another outside observer, Leigh Martinson, an intellectual property partner in the Boston office of McDermott Will & Emery.

Besides being bet-the-company litigation for NTP, the Federal Circuit cases raise the larger issue of what to do when court rulings and re-examinations result in diametrically opposed findings. NTP argues in its appeals brief that the Federal Circuit's interpretations of NTP's patents in the Research in Motion litigation should prevail over the patent appeals board's more recent findings. It claims the appeals board "applied an excessively broad claim construction" that's "inconsistent" with the Federal Circuit's decision in the Research in Motion case.

NTP's lawyers for the Federal Circuit appeals at Richmond, Va.-based Hunton & Williams did not respond to requests for comment.

The patent office argues in one of its Federal Circuit briefs that the appeals board properly stated it is "not bound by a court's claim construction in parallel infringement proceedings." The patent office further argues: "Rebutting NTP's additional argument that a court's claim construction was equal to the 'broadest reasonable construction,' the Board explained the differences between agency and court proceeding and the different construction standards."

When a patent gets thrown into re-examination, the patent office evaluates it from a different perspective than courts in a lawsuit involving adversarial parties, Markman said. "The standard is different, in my view," Markman said.

Under the re-examination statute, the patent office's job is to evaluate whether the patent claims are new, not obvious, and to apply the broadest reasonable construction, Markman said. "There's no statute anywhere that says that the board has to look at the Federal Circuit's prior ruling and strictly apply that," Markman said.

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