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Traditional Telecom and VoIP Conflict Yields Critical Insights

On Friday April 6, Vonage narrowly (and possibly temporarily) escaped what its own lawyers described as a slow death after the Federal Circuit issued a stay of the district court's earlier order enjoining Vonage from acquiring new customers – a serious threat indeed for a company that operates at a loss, and counts on growth to reach profitability and survive. Order, *Verizon Servs. Corp. v. Vonage Holdings Corp.*, No. 1:2006cv00682 (E.D. Va. Apr. 6, 2007); Order, *Verizon Servs. Corp. v. Vonage Holdings Corp.*, No. 2007-1240 (Fed. Cir. Apr. 6, 2007). The district court's entry of an injunction was the result of a jury finding that Vonage had infringed three Verizon Voice over Internet Protocol ("VoIP") patents that Verizon had claimed were essential for the operation of Vonage's network.

Vonage has appealed, maintaining its position that Verizon's patents are invalid, unenforceable and not infringed. It is difficult to predict how the Federal Circuit may rule ultimately, given both the nature of the case and the 35% reversal rate that generally applies to consideration of claim construction issues,¹ and, of course, a last minute settlement between Verizon and Vonage may render the issue moot.

Putting speculation on such matters aside, this article will discuss, following a summary of the Verizon case to date,

the lessons that other potential targets of Verizon (and other VoIP patentees) should learn from the situation in which Vonage now finds itself.

The Verizon v. Vonage Patent Litigation

In June 2006, Verizon filed an infringement lawsuit against Vonage in the Eastern District of Virginia, one of the fastest acting courts in the country and the same court that heard the well-publicized RIM-NTP patent suit last year. *NTP, Inc. v. Research in Motion, Ltd.*, No. 3:2001cv00767 (E.D. Va.). The asserted patents included US. Patent Nos. 6,137,869 ("the '869 Patent"); 6,430,275 ("the '275 Patent"); 6,359,880 ("the '880 Patent"); 6,104,711 ("the '711 Patent"); 6,282,574 ("the '574 Patent"); 6,128,304 ("the '304 Patent"); and 6,298,062 ("the '062 Patent"), representing 5 different patent families. In response, Vonage asserted defenses and declaratory judgment counterclaims of non-infringement, invalidity and unenforceability due to inequitable conduct.

A claim construction (Markman) hearing occurred on February 2, 2007, and the district court issued its Order construing the claims on February 11. Subsequently, Verizon dropped the '304 and '062 Patents from the case.

During the trial that started on February 22, Verizon sought \$197 million in damages for past infringement, a future royalty payment of 19% and a permanent injunction. On March 8, the jury decided that Vonage had infringed six claims of three of Verizon's patents, including Claim 27 of the '574 Patent², Claim 20 of the '711 Patent³, and Claims 1, 6, 7 and 8 of the '880 Patent.⁴ The jury also found that the '869 and '275 Patents were not infringed and that Vonage had failed to show that any

¹ See Kimberly A. Moore, *Markman Eight Years Later: Is Claim Construction More Predictable?*, 9 Lewis & Clark L. Rev. 231, 233 (2005)

² The '574 Patent, entitled "Method, Server and Telecommunications System for Name Translation on a Conditional Basis and/or to a Telephone Number," is directed towards an "enhanced name translation server, for use on a packet data network such as the Internet" that "executes a conditional analysis in response to at least some queries or requests for name translations," and "supports a wide variety of different types of translations, including domain name to address, domain name to telephone number, and telephone number to address." See '574 Patent Abstract.

of the asserted patents were invalid. Verizon was awarded \$58 million in damages and a 5.5% future royalty.

Verizon filed a motion for a permanent injunction on March 16, asking the district court to bar Vonage from further infringement – essentially shutting down Vonage’s network. On March 23, the district court issued an order enjoining Vonage from using the infringing VoIP technology. Vonage filed its Notice of Appeal on March 27 and contemporaneously moved for a stay of the injunction. On April 6, the district court denied Vonage’s request for a stay, but instead of shutting Vonage down entirely, entered a “compromise” injunction which “merely” barred Vonage from servicing new customers. Vonage filed a Motion to Stay the district court’s injunction with the Court of Appeals for the Federal Circuit later that same day. The Federal Circuit directed Verizon to respond to the Motion for Stay Pending Appeal of Injunction no later than April 13. Then, the injunction entered by the district court was temporarily stayed pending receipt of a response from Verizon and the Federal Circuit’s consideration of the papers.

Going Forward

The district court’s grant of an injunction against Vonage – despite the subsequent stay– will no doubt embolden other patentees fulfilling predictions of increased patent litigation in this space. Before reacting to any such potential threat, it is important to put the grant of an injunction in this case in perspective. In the recent *eBay v. MercExchange* decision, the U.S. Supreme Court considered the proper standard for permanent injunctive relief in patent cases and departed from the generally accepted rule that permanent injunctions will be granted against patent infringers absent exceptional circumstances, holding instead that the traditional four-factor test applied by courts of equity applies. 126 S. Ct. 1837 (U.S. May 15, 2006). Under the traditional four-factor test, a plaintiff must demonstrate that: (1) it has suffered an irreparable injury; (2) remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; (4) the public interest would not be disserved by a permanent injunction. *Id.* at 1839. Post *eBay*, it is difficult to obtain injunctive relief absent direct competition as damages are typically adequate to compensate non-competitors. Accordingly, in VoIP litigation which involves non-competitive patentees (such as patent

holding companies) there is less probability that an injunction will be granted.

Still, there are things that can be done to manage the risks inherent in a patent suit involving a direct competitor. For young VoIP companies, it is time to integrate intellectual property (“IP”) considerations into decisions that previously would have been considered solely technical or business. A review of your closest competitors’ IP (the patentee most likely to have reason to sue you) and patents that your competitors have already been involved in litigation with, should be included as a formal part of the design cycle of new products to anticipate and preempt what might otherwise later become problematic. Additionally, companies that purchase technology should give more careful thought to including indemnities for patent infringement into purchase agreements. In this regard, at least two patent holding companies are presently suing VoIP companies on patents that pertain to Power Over Ethernet (“PoE”) technology that is often purchased from other suppliers.

Finally, it is worth noting that for a company of its size, Vonage’s own patent portfolio is small, having just 3 issued patents and 8 published patent applications as of the time of the authoring of this article. Vonage’s small portfolio may have made it an easier target to Verizon, than it might have been had Verizon had to fear a patent counterclaim. A well developed patent portfolio can dissuade a competitor from bringing litigation, or make it more likely to want to settle a case rather than litigate, as both parties would have equal injunction exposure.

In Conclusion

Verizon v. Vonage is noteworthy because it highlights the increasing conflict between traditional telecommunications companies and the emerging VoIP industry. As the VoIP industry matures, successful companies will have the privilege of facing patent infringement lawsuits from numerous patentees looking to share a piece of the prosperity - both competitors and otherwise. The former are particularly dangerous in that they present the prospect of life-threatening injunctions as well as substantial damages claims. Companies that prepare for this challenge now will be better positioned to compete in an increasingly crowded marketplace.

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³ The ‘711 Patent, entitled “Apparatus and Method for Providing Electronic Mail Relay Translation Services,” pertains to the same general subject matter at the ‘574 Patent. See ‘574 Patent Abstract.

⁴ The ‘880 Patent, entitled “Public Wireless/Cordless Internet Gateway” is directed towards “[a] localized wireless gateway system provides wireless telephone communication, and for at least interexchange communication, provides voice telephone access to a public packet data network, such as the Internet.” See ‘880 Abstract. Claim 1, below, is exemplary of the general nature of the infringed claims:

1. A method comprising: registering a wireless telephone terminal in a localized wireless gateway system; transmitting registration data identifying the gateway system from the localized wireless gateway system to a home location register database through a public packet data communication network; receiving a request from a calling computer coupled to the public packet data communication network for a call to the wireless telephone terminal; in response to the request, accessing the home location register database and obtaining a packet data address for the localized wireless gateway system; using the address to set up a voice communication through the public packet data communication network and the localized wireless gateway system between the calling computer and the wireless telephone terminal.

Col. 24, lines 5-22. Claims 6, 7 and 8 depend on Claim 1.

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