

Last Month at the Federal Circuit

Special Edition

Court Upholds Infringement Rulings Against Vonage for Two of Three Verizon VoIP Patents

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Judges: Michel (dissenting-in-part), Gajarsa (concurring-in-part and dissenting-in-part), Dyk (author)

[Appealed from E.D. Va., Judge Hilton]

In *Verizon Services Corp. v. Vonage Holdings Corp.*, Nos. 07-1240, -1251, -1274 (Fed. Cir. Sept. 26, 2007), the Federal Circuit affirmed the district court's claim construction, jury instructions, and injunction for two of three Verizon Services Corporation, Verizon Laboratories Inc., or Verizon Communications, Inc. (collectively "Verizon") patents asserted against Vonage Holdings Corporation and Vonage America, Inc. (collectively "Vonage") with respect to Voice over IP ("VoIP") technology. For the third patent, the Federal Circuit revised the district court's claim construction, remanded for a new trial, suggested further court consideration of jury instructions relating to obviousness in light of *KSR International Co. v. Teleflex, Inc.*, 127 S. Ct. 1727 (2007), and vacated the lower court's injunction. The Federal Circuit also vacated an award of \$58,000,000 in damages and a 5.5% royalty rate because the jury verdict did not apportion damages among the three patents.

Vonage provides telephone service to its subscribers through VoIP technology, which allows users to transmit telephone calls over the Internet. Vonage's system routes calls over the Internet and, when necessary, contacts traditional subscribers by relaying signals to the public switched telephone network ("PSTN"). Verizon asserted U.S. Patent Nos. 6,282,574 ("the '574 patent"), 6,104,711 ("the '711 patent"), and 6,359,880 ("the '880 patent") against Vonage. Two of the patents, the '574 and '711 patents, share the same specification. That specification describes an invention, enhancing the existing Domain Name System ("DNS"), which translates domain names (such as "www.fedcir.gov") into Internet Protocol ("IP") addresses, by allowing for a greater number of translations, including translations to and from telephone numbers. The specification of the third patent, the '880 patent, describes a localized wireless gateway system that allows wireless telephones to register with the system and make calls.

After a multiweek trial, a jury found Vonage to infringe the asserted claims of the '574, '711, and '880 patents. The jury also found the asserted claims of the '574, '711, and '880 patents were not invalid as obvious; that Vonage did not willfully infringe the patents; awarded damages of \$58,000,000; and set a royalty rate of 5.5% for any future infringement. The district court entered judgment on the jury verdict.

On appeal, the Federal Circuit first affirmed the district court's construction of the claim term "translation" in the '711 patent and rejected Vonage's argument that the term required a conversion from a higher-level protocol to a lower-level protocol. Citing *Phillips v. AWH Corp.*, 415 F.3d 1303, 1323 (Fed. Cir. 2005), the Court held that

"[A] statement made by the patentee during prosecution history of a patent in the same family as the patent-in-suit can operate as a disclaimer."
Slip op. at 17.

"[t]he mere fact that the specification's examples of translation may involve a change in protocol from a higher to a lower level protocol does not establish that such a limitation should be imported into the claims." Slip op. at 10. Moreover, the Court found "no evidence that the ordinary meaning of translation in the art means a change in protocol from a higher-level to a lower-level protocol." *Id.* at 11.

Next, the Federal Circuit affirmed the district court's construction of the claim term "conditional analysis" in the '711 patent, finding again that nothing other than specification examples supported Vonage's argument that the term should be narrowly construed as being limited to an analysis based upon the called party's preferences. The Federal Circuit similarly rejected Vonage's argument that the

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claim term “server” in the ’574 and ’711 patents should be narrowly construed to require management of an enhanced name translation service. The Court found that “there is simply no indication that the term ‘server’ is being redefined in the specification to include these enhanced name translation functions.” *Id.* at 12. Moreover, the Court reasoned that “[t]he fact that such functions are mentioned separately when a ‘server’ is mentioned in the claims weighs against limiting a ‘server’ to one that performs the functions.” *Id.*

Finally, the Federal Circuit rejected Vonage’s argument that “destination” in the claim term “destination address” in the ’711 patent should be limited only to a final destination, and not an intermediate destination. The Court noted that the specification passage relied on by Vonage was in the “Background Art” section of the ’711 patent and described how the Internet works in general rather than describing the patented invention. Moreover, the Court found that the passage relied on by Vonage did not redefine “destination” to mean “final destination.” The Court also concluded that Vonage’s proposed construction should be rejected because it would exclude several examples in the specification.

Next, the Federal Circuit held that the district court erred in its construction of the term “localized wireless gateway system” in the asserted claims of the ’880 patent. The Court agreed with Vonage that the claimed gateway should be construed to be limited to a transmission range of only a few feet because of statements made by the patentee during prosecution of a related patent of the same family as the ’880 patent. Citing *Microsoft Corp. v. Multi-Tech Systems, Inc.*, 357 F.3d 1340, 1350 (Fed. Cir. 2004), the Court noted that “a statement made by the patentee during prosecution history of a patent in the same family as the patent-in-suit can operate as a disclaimer.” Slip op. at 17.

The Court concluded that the applicants clearly disavowed claim scope by gaining allowance of a related application, which also claimed a “localized wireless gateway system,” after stating that prior art systems all appear to be directed to nonlocalized systems, and that the “present invention,” by contrast, was restricted to operate within a few feet from a base station. The Court further concluded that the claim term at issue should be construed consistently in the ’880 patent and the related application, even though the disclaimer in the related application prosecution occurred after the ’880 patent issued.

The Federal Circuit further agreed with Vonage that the claim term “localized wireless gateway system” should be construed as being limited to one performing compressing and packetizing functions. Noting that the ’880 patent twice described the gateway system of the “present invention” as having those features, the Court held that “[w]hen a patent thus describes the features of the ‘present invention’ as a whole, this description limits the scope of the invention.” *Id.* at 20.

The Federal Circuit also rejected Vonage’s argument that the claim term “wireless telephone terminal” should be limited to one that roams among a plurality of base stations. The Court noted that although the specification makes reference to “roaming” telephones, Vonage failed to identify language that would require roaming in every case.

Because the Court concluded that the district court erred in construing the term “localized wireless gateway system,” it remanded for a new trial on the ’880 patent, and accordingly vacated the injunction with respect to the ’880 patent.

Next, the Court considered Vonage’s argument that the district court erroneously instructed the jury to apply a teaching/suggestion/motivation-to-combine test on obviousness, which was rejected by the Supreme Court in *KSR*. First, the Court noted that there could not be prejudicial error with respect to the ’574 and ’711 patents, because Vonage did not dispute that the obviousness testimony at trial centered on a single reference, and thus any alleged error in instructions requiring a finding of motivation to combine several references would have been harmless. With respect to the ’880 patent, however, because the Court revised the claim construction of several key terms, it held that a remand was necessary so that the district court could consider whether a new trial should be granted on the issue of obviousness.

The Court also held that in light of its holding that a new trial was required on the issue of infringement of the ’880 patent, and since the jury’s verdict gave no indication what portion of damages were allocated to the infringement of the ’880 patent, the Court vacated the determination that Verizon was entitled to a damages award of \$58 million and a royalty rate of 5.5%, and remanded to the district court for further determination.

Lastly, the Court affirmed the district court’s decision to issue an injunction with respect to the ’574 and ’711 patents. Although the district court failed to consider one factor relevant to the balance of hardships required by *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1839 (2006), namely, whether the district court should have allowed time for Vonage to implement a workaround that would avoid continued infringement of the ’574 and ’711 patents before issuing its injunction, the Federal Circuit noted that Vonage made no request for a workaround period to the district court. Slip op. at 25 n.12. Moreover, Vonage already had several months since the district court’s judgment to implement a workaround.

Dissenting-in-part, Chief Judge Michel indicated that the district court should have been affirmed in full. Specifically, he disagreed with the majority’s reversal of the district court’s claim construction with respect to the claim terms of the ’880 patent, as well as vacating the damages award by the jury. With respect to the claim term “localized wireless gateway system,” Chief Judge Michel noted that the majority

“read[] out of context snippets of language used by the applicants in the prosecution of not the ’880 patent, but rather a related patent not asserted in this case.” Michel Dissent at 2. Chief Judge Michel further stressed that the specification of the ’880 patent nowhere mentions any restriction to a “few feet,” but to the contrary discloses areas of operation as large as an airport, shopping center, or industrial complex.

Chief Judge Michel also disagreed with the majority’s decision to limit the term “localized wireless gateway system” to require compression and packetization functions. He noted that the claim language was silent and did not mention these functions. Moreover, the specification merely stated that those functions were “one aspect” of the present invention, and that aspect was recited in claims that were pursued in a divisional application.

Chief Judge Michel also dissented with respect to remanding the jury instructions with respect to the determination of obviousness for further consideration in light of the Supreme Court’s decision in *KSR*. He wrote that the district court

correctly instructed that the reason to combine prior art elements “could be gleaned from ‘the knowledge that was generally available to one of ordinary skill in the relevant art.’” *Id.* at 7.

Lastly, Chief Judge Michel disagreed with disturbing the jury’s determination of damages, faulting Vonage for failing to make any showing on appeal that the damages award would not be supported by only those patents for which the Court affirmed liability.

Judge Gajarsa, concurring-in-part and dissenting-in-part, agreed with the majority’s decision, except that he believed that Vonage was correct that the claim term “destination address” in the ’711 patent should have been construed to be limited to a final destination, and thus he would have vacated the judgment of infringement of the ’711 patent. He wrote that the examples supplied in the ’711 patent’s written description all speak to the “destination” or “destination address” as being that of the actual called party, and the ’711 patent clearly distinguishes intermediary pass-through nodes on the network from the endpoints.

Abbreviations | Acronyms

ALJ	Administrative Law Judge
ANDA	Abbreviated New Drug Application
APA	Administrative Procedures Act
APJ	Administrative Patent Judge
Board	Board of Patent Appeals and Interferences
Commissioner	Commissioner of Patents and Trademarks
CIP	Continuation-in-Part
DJ	Declaratory Judgment
DOE	Doctrine of Equivalents
FDA	Food & Drug Administration

IDS	Information Disclosure Statement
IP	Intellectual Property
ITC	International Trade Commission
JMOL	Judgment as a Matter of Law
MPEP	Manual of Patent Examining Procedure
PCT	Patent Cooperation Treaty
PTO	United States Patent and Trademark Office
SEC	Securities and Exchange Commission
SJ	Summary Judgment
SM	Special Master

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