

Verizon V. Vonage: The Devil Is In The Dictum

Tuesday, Oct 02, 2007 --- The Federal Circuit's reversal in part of the \$58 million judgment against Vonage by Verizon[1] has garnered the expected degree of publicity for a development of this importance in the telecommunication wars. Lost in the headlines, however, is any attention to a small component of the opinion that is likely to have widespread implications beyond the telecom field.

In a footnote the Federal Circuit suggests that injunctive relief is inappropriate until an infringer has had time to explore a workaround of the patents at issue. If its plain language is applied by lower courts, the footnote creates a safe harbor that will haunt patentees seeking injunctive relief for the foreseeable future.

The panel in *Verizon v. Vonage* was nearly as divided as one may imagine. The Opinion of the Court was authored by Circuit Judge Dyk, with Chief Judge Michel joining in part. Chief Judge Michel filed an opinion dissenting in part and Circuit Judge Gajarsa filed an opinion concurring in part and dissenting in part.

The nature of the holding or disagreements do not concern or affect the subject matter of this article because the most interesting component of the decision appears in a footnote unrelated to the disposition of the appeal:

"One of the factors that is relevant to the balance of the hardships required by the Supreme Court's decision in *eBay* was not considered by the district court, namely whether the district court should have allowed Vonage to implement a workaround that would avoid infringement of the '575 and '711 patents before issuing its injunction.

"Verizon had a cognizable interest in obtaining an injunction to put an end to infringement of its patents; it did not have a cognizable interest in putting Vonage out of business. However, as Verizon points out, Vonage made no request for a workaround period to the district court, and Vonage has already had several months since the district court's judgment to implement a workaround." [2]

The discussion in footnote 12 was gratuitous. It did not affect the nature or basis of the Opinion of the Court, Chief Judge Michel's dissension in part or the concurrence in part and dissension in part by Judge Gajarsa. It is, therefore, purely dictum and not binding upon any future panels. [3] Nonetheless, dictum often evolves into law. [4]

The troubling aspect of this dictum is the acceptance of a novel safe-harbor

for infringers. The footnote suggests that, until such time as the infringer has had the opportunity to explore designing or working around an infringed patent, an injunction is inappropriate.

The practical consequences of this suggestion are troubling for patentees. The safe-harbor would represent a potent defense to requests for preliminary injunctions. Absent highly persuasive proof of willful infringement (that may not be available without discovery), an accused infringer in defense against a request for a preliminary injunction may claim that it has not had sufficient notice of the allegations to evaluate a workaround.

The sufficient length of time to explore workarounds will be a defense faced by patentees seeking a temporary or permanent injunctions. With more complicated, capital-intensive technologies such as microchip fabrication techniques for example, it may be anticipated that unsuccessful defendants in efficient patent forums such as the Eastern District of Texas may claim that they have had insufficient time to rethink their processes even after a jury verdict.

An equally troubling component of footnote 12 is the observation that Verizon, the apparent victim of infringement, “did not have a cognizable interest in putting Vonage out of business.” The implicit proposition of this observation is that, if the consequences are sufficiently severe to the wrongdoer (the balancing of the hardships element of the eBay standard), then those consequences to the wrongdoer trumps the other three considerations in the eBay analysis.[5]

The fact that a permanent injunction may force an infringer out of business is unfortunate for the infringer. As a matter of public policy (and under the public interest factor of eBay, rather than the balancing of the hardships factor), however, it is difficult to support the proposition that infringers should get a free pass on an injunction until they have exhausted the possibilities of post-hoc workarounds.

The U.S. Supreme Court held in *Continental Paper Bag Co. v. Eastern Paper Bag Co.* that a patent holder enjoys the privileges of any owner of property.[6] Owners of real property are permitted to eject trespassers and owners of personal property are entitled to recover their chattels. In an era where the value of intellectual property rights is as important to businesses as real property,[7] intellectual property rights should not be relegated to second-class status by curtailing available remedies.

Dicta often improve opinions by making them more informative. Unfortunately, footnote 12 of the Federal Circuit’s Opinion of the Court in *Verizon v. Vonage* does not serve that salutary function. Instead, it further complicates an already divided decision by suggesting an expansion of the law.

Whether or not this apparent expansion of the law was the intent of the majority of the panel will require future clarification by the Federal Circuit. In

the interim, accused infringers will enjoy an additional defense against injunctive relief.

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[1] 2007 WL 2781869 (Fed. Cir. Sept. 26, 2007).

[2] *Id.* at *12 n.12.

[3] See *Co-Steel Raritan, Inc. v. International Trade Com'n*, 357 F.3d 1294, 1307-08 (Fed. Cir. 2004).

[4] See, e.g., *Reich v. Continental Cas. Co.*, 33 F.3d 754, 757 (7th Cir. 1994) (Posner, CJ) (“[W]here it is a recent dictum that considers all the relevant considerations and adumbrates an unmistakable conclusion, it would be reckless to think the Court likely to adopt a contrary view in the near future. In such a case the dictum provides the best, though not an infallible, guide to what the law is, and it will ordinarily be the duty of a lower court to be guided by it.”).

[5] In *eBay, Inc. v. MercExchange, L.L.C.*, the U.S. Supreme Court held that a successful plaintiff in a patent case seeking a permanent injunction under 35 U.S.C. § 283 must demonstrate: 1) irreparable injury; 2) insufficiency of legal remedies, such as monetary damages; 3) considering the balance in equities between the plaintiff and defendant, a remedy in equity is warranted; and 4) that the public interest would not be disserved by a permanent injunction. 127 S.Ct. 1837, 1841 (2006).

[6] 210 U.S. 405, 429 (1908).

[7] Pioneering work by Intellectual Capital Merchant Banc Ocean Tomo LLC, for example, demonstrates the emergence of intellectual capital as the leading component of publicly traded companies' market value.