

\$140M Verizon Penalty Withstands Fed. Circ. Appeal

By Django Gold

Law360, New York (August 24, 2012, 9:25 PM ET) -- A \$140 million penalty against Verizon Communications Inc. will stand after the Federal Circuit on Friday refused to allow the cable provider to call into question the integrity of the damages methodology in its dispute with ActiveVideo Networks Inc. over patents for on-demand video.

In a wide-ranging ruling that let Verizon off the hook on one of the four patents it was accused of infringing while also vacating a permanent injunction blocking the company's FiOS video-on-demand system, the appeals court rejected Verizon's argument that the trial court wrongly favored ActiveVideo's damages expert at the expense of Verizon's.

"Although we [might] not have decided these evidentiary issues the same way had we presided over the trial, the district court did not abuse its discretion," the Federal Circuit said in its 56-page opinion, refuting Verizon's uproar that the trial court refused to allow its expert to rely on an agreement between ActiveVideo and nonparty Cablevision Systems Corp. while allowing ActiveVideo's expert to rely on a similar deal with Gemstar.

"The Cablevision agreement postdated the hypothetical negotiation by four years and the district court thus had a legitimate reason to exclude it," the court said. "The fact that the district court allowed ActiveVideo's expert to rely on the Gemstar agreement, which postdated the hypothetical negotiation by two years, is irrelevant because Verizon never challenged its admissibility."

To Verizon's benefit, the appeals court did reverse the Virginia federal district court's finding of infringement against U.S. Patent Number 6,205,582, one of the four ActiveVideo patents the company allegedly co-opted with its FiOS service, which allows cable customers to use their set-top boxes to line up video-on-demand, play games and use small software applications called widgets.

However, "because Verizon has not argued either before the district court or on appeal that a finding of noninfringement of the '582 patent should result in a reduction of damages, we affirm the damages award against Verizon in full," the court said.

The Federal Circuit also determined that the trial court erred in imposing a permanent injunction preventing Verizon from continuing to offer the FiOS service to its customers, finding that the record lacked evidence showing that mere monetary relief would be insufficient.

“The losses to ActiveVideo due to Verizon’s infringement are clearly quantifiable,” the court said, pointing out ActiveVideo’s enthusiasm in licensing its patents. “In light of the record evidence including ActiveVideo’s past licensing of this technology and its pursuit of Verizon as a licensee, no fact finder could reasonably conclude that ActiveVideo would be irreparably harmed by the payment of a royalty.”

However, the Federal Circuit refused to allow Verizon to vacate the \$2.74-per-customer-per-month sunset royalty imposed by the trial court, saying, “we see no error in its postverdict royalty calculation.” According to a report filed by Verizon with the U.S. Securities and Exchange Commission in July, these royalties amounted to approximately \$11 million per month from August 2011 to May of this year.

“The district court, on remand, should determine an appropriate ongoing royalty, an inquiry that is much the same as its sunset royalty analysis,” the court said.

Representatives for the parties were not immediately available for comment on Friday.

U.S. Circuit Judges William C. Bryson, Timothy B. Dyk and Kimberly A. Moore sat on the panel for the Federal Circuit.

The patents-in-suit are U.S. Patent Numbers 5,550,578; 6,034,678; 6,100,883; and 6,205,582.

ActiveVideo is represented by Thomas M. Peterson of Morgan Lewis & Bockius LLP.

Verizon is represented by Michael K. Kellogg of Kellogg Huber Hansen Todd Evans & Figel PLLC.

The case is ActiveVideo Networks Inc. v. Verizon Communications Inc. et al., case number 2011-1538, in the U.S. Court of Appeals for the Federal Circuit.

--Editing by Cara Salvatore.

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