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AVOIDING THE TRAIN WRECK: A $200 MILLION LESSON

Sometimes the light at the end of the tunnel really is an oncoming train, as starkly illustrated by *TiVo Inc. v. EchoStar Corp.*,[1] a recent case involving contempt proceedings for breach of a non-infringement injunction.

No matter how you look at it, contempt proceedings are unpleasant. When everything that can go wrong does go wrong, however, practitioners can learn valuable lessons. Let's take a look from the safe side of the tracks at the implosion *TiVo* wrought.

KEY IDEAS:

Background -- *TiVo Inc. v. EchoStar Corp.*

• **Infringement and Injunction** – TiVo sued EchoStar for infringement of its patent relating to "time-shift" television technology.[2] A jury found that EchoStar infringed the patent and awarded TiVo nearly $74 million in compensatory damages.[3] After analyzing the four *eBay* factors, the trial court entered a permanent injunction and decided not to order a stay of the injunction pending appeal.[4]

Pertinent elements of the injunction required EchoStar to "disable the DVR functionality . . . of the Infringing Products that have been placed with an end user or subscriber"[5](the Disablement Provision). EchoStar disagreed with this provision's language, arguing that it was overbroad and should relate only to the company's provision of infringing DVR software to subscriber boxes on activation.[6] Overruling EchoStar's objection, the district court entered the injunction. Importantly, at no time during the subsequent appeal did EchoStar challenge the injunction's language or scope.[7]

• **Appeal I** – EchoStar appealed and, when asking the Federal Circuit to stay the injunction, failed to disclose ongoing design-around efforts. Instead, EchoStar claimed, "without the stay it would be unable to provide DVR service and would risk losing a significant portion of its existing or potential customers, which could cost the company $90 million per month."[8] Based on the motion, the Federal Circuit stayed the injunction.[9]

On the merits, the Federal Circuit reversed the infringement finding as to hardware-related claims, but upheld the jury's verdict on software-related claims and affirmed the judgment.[10] The Federal Circuit then dissolved its stay of the injunction and authorized the district court to determine what additional damages TiVo might have sustained during the stay.[11] Thus, the injunction as originally entered took effect without alteration.

1 *TiVo Inc. v. EchoStar Corp.*, No. 2009-1374, 2011 WL 1486162 (Fed. Cir. Apr. 20, 2011) (*en banc*).
2 *Id.* at *1.
3 *TiVo Inc. v. EchoStar Commc'ns Corp.*, 446 F. Supp. 2d 664, 665 (E.D. Tex. 2006).
4 *Id.* at 669, 670.
5 *TiVo Inc. v. Dish Network Corp.*, 640 F. Supp. 2d 853, 858 (E.D. Tex. 2009).
6 *Id.*
7 *Id.* at 859.
8 *Id.*
9 *TiVo Inc. v. EchoStar Commc'ns Corp.*, 516 F.3d 1290, 1294 (Fed. Cir. 2008), *cert. denied,* 129 S. Ct. 306 (2008).
10 *Id.* at 1312.
11 *Id.*

Peter E. Strand won a national award for legal writing from the Burton Foundation, in association with The Library of Congress. The award was presented June 13, 2011, at The Library of Congress in Washington, D.C..

THE BURTON AWARDS FOR LEGAL ACHIEVEMENT 2011 —RECIPIENT—

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• **Contempt** – Following the appeal, TiVo filed a motion in the district court seeking to hold EchoStar in contempt.[12] Under the then-current principles for contempt proceedings in patent cases, the district court found EchoStar in contempt.[13] In reaching its conclusion, the district court said:

- Following the verdict, EchoStar immediately set about designing around the patent-in-suit but did not tell the court or the Federal Circuit of its design-around efforts.[14]
- Within a month after representing to the Federal Circuit that without a stay it would be unable to provide DVR service and would lose millions of dollars in business, EchoStar began loading modified software (its design-around) into customer DVRs.[15]
- By the time the stay of the injunction was lifted, "EchoStar had long since downloaded its design-around effort—modified DVR software—into its DVR products."[16]
- Only after the mandate issued, when TiVo asserted that EchoStar was in contempt, did the district court become aware of EchoStar's design-around efforts.[17]

Because EchoStar's modifications did not affect elements of the disputed claims as construed, the infringing and modified products could be treated as the same, and the modified software continued to infringe. EchoStar was, therefore, in contempt.

The district court proceedings also included EchoStar's filing (1) a petition for a writ of mandamus, and (2) an action in another venue seeking a declaration of non-infringement, less than an hour after the district court made an adverse decision.

Ultimately, the district court concluded that:

- The differences between the infringing and modified products were not more than colorable. Because EchoStar's modifications did not affect elements of the disputed claims as construed, the infringing and modified products could be treated as the same, and **the modified software continued to infringe**. EchoStar was, therefore, in contempt.[18]
- Even if EchoStar had succeeded in its efforts to design around the patent, it still would be in contempt, because it failed to comply with the Disablement Provision requiring EchoStar to "disable the DVR functionality." EchoStar tried a software fix, but did not disable DVR functionality as the court order required. And EchoStar's failure to challenge the provision's breadth before the contempt proceedings meant those objections were waived.[19]

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• **Sanctions** – After analyzing TiVo's additional damages during the stay of the injunction, the district court awarded TiVo an additional $200 million, made up of approximately $110 million in compensation and $90 million in sanctions for contempt.[20]

• **Appeal II** – EchoStar appealed the district court's decision and award of sanctions to the Federal Circuit, which affirmed the contempt finding and, doing so, identified **five important rules to remember** about proceedings involving contempt for violation of infringement provisions in injunctions:

1. New Test for Contempt – The Federal Circuit overruled the "unworkable" two-step inquiry set forth in *KSM*.[21] In its place, the Federal Circuit gave district courts broad discretion and

12 *TiVo Inc. v. Dish Network Corp.*, 640 F. Supp. 2d 853, 856 (E.D. Tex. 2009).
13 *Id.* at 856, 874 (citing *KSM Fastening Sys., Inc. v. H.A. Jones Co., Inc.*, 776 F.2d 1522 (Fed. Cir. 1985)).
14 *Id.* at 857.
15 *Id.* at 859.
16 *Id.* at 857.
17 *Id.* at 859.
18 *Id.* at 870-72.
19 *Id.* at 873-74.
20 *TiVo Inc. v. Dish Network Corp.*, 655 F. Supp. 2d 661, 666 (E.D. Tex. 2009).
21 *TiVo Inc. v. EchoStar Corp.*, No. 2009-1374, 2011 WL 1486162, *6 (Fed. Cir. Apr. 20, 2011) (*en banc*). Under *KSM Fastening Sys., Inc. v. H.A. Jones Co., Inc.*, 776 F.2d 1522 (Fed. Cir. 1985), the court was first required to determine whether a contempt proceeding is an appropriate setting to judge infringement by the

"telescoped" the two-fold *KSM* inquiry into one analysis by eliminating the separate determination of whether contempt proceedings were properly initiated.

The "more than colorable differences" standard will continue to be employed, but with a twist. "Instead of focusing solely on infringement, the contempt analysis must focus initially on the differences between the features relied upon to establish infringement and the modified features of the newly accused product."[22]

Thus, the analysis is not based on random differences, but on the differences between the aspects of the accused product that formed the basis for infringement and the modified features of the newly accused product. Based on that analysis, the district court will determine whether the modification is significant and the product as a whole is more than "colorably different."[23]

Thus, the analysis is not based on random differences, but on the differences between the aspects of the accused product that formed the basis for infringement and the modified features of the newly accused product.

If no more than colorable differences between the adjudged infringing product and the new product exist, then a determination of infringement is an essential additional element in the contempt analysis. If the differences are more than colorable, further contempt proceedings are inappropriate.[24]

2. Good Faith Not a Defense – The Federal Circuit confirmed that "good faith" is not a defense to a contempt proceeding. Simply put, "a lack of intent to violate an injunction alone cannot save an infringer from a finding of contempt."[25] Thus, reliance on non-infringement opinions will be irrelevant to the issue of contempt. But these factors may be considered in assessing contempt penalties.[26]

3. Vagueness and Overbreadth of Injunction Not Defenses – Claims that an injunction are vague are not defenses in a contempt proceeding. "[W]here a party faced with an injunction perceives an ambiguity in the injunction, it cannot unilaterally decide to proceed in the face of the injunction and make an after-the-fact contention that it is unduly vague." [27]

The Federal Circuit acknowledged that, in certain circumstances, vagueness can operate as a defense to contempt.[28] But, where a party bypasses opportunities to assert a vagueness claim on appeal or through a motion to clarify or modify the injunction, the party cannot disregard the injunction and then object to being held in contempt when the courts conclude that the injunction covered his conduct.[29]

Simply put, "a lack of intent to violate an injunction alone cannot save an infringer from a finding of contempt.

Similarly, claims that an injunction is overbroad are not a defense. "The time to appeal the scope of an injunction is when it is handed down, not when a party is later found to be in contempt."[30]

4. Waiver of Objections a Big Risk – Given the foregoing, it comes as little surprise that objections to the language, clarity and breadth of an injunction are waived if not made and advanced on appeal. The simple rule is "use it or lose it" when it comes to objections to the injunction's language. The Federal Circuit will "only review whether the injunction at issue is both enforceable and violated, and whether the sanctions imposed were proper."[31]

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redesigned product. Where the differences were "more than colorable" and "substantial open issues" existed with respect to infringement, then a new trial was necessary and the court could not proceed to a contempt finding. Only where differences were not "more than colorable" could contempt based on infringement of the previously construed claims be considered.

22 *Id.* at *7.

23 *Id.*

24 *Id.* at *7-*8.

25 *Id.* at *6 (citing *McComb v. Jacksonville Paper Co.*, 336 U.S. 187, 191 (1949); *Additive Controls & Meas. Sys., Inc.*, 154 F.3d 1345, 1353 (Fed. Cir. 1998)).

26 *Id.*

27 *Id.* at *10.

28 *Id.* at *10 (citing *Granny Goose Foods, Inc. v. Teamsters,* 415 U.S. 423, 445 (1974)).

29 *Id.* at *10 (citing *McComb v. Jacksonville Paper Co.*, 336 U.S. 187, 192 (1949)).

30 *Id.* at *13 (citing *Maggio v. Zeitz,* 333 U.S. 56 (1948)).

31 *Id.* at *6.

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5. Design Around with Caution – EchoStar placed great emphasis on its efforts to design around the infringement.[32] But those efforts were ultimately meaningless when the district court found that (1) the redesigned product was not colorably different from the adjudged product, and (2) the language of the injunction would have been violated even with a successful design-around.

Note that, while it may be walking a tactical tightrope, accused infringers should at least consider implementing design-around efforts early on in the litigation. In addition, if design-around efforts look like they may bear fruit, both the court and opposing counsel should be apprised of apparently successful design-around efforts well in advance of a contempt proceeding. Some practitioners actually invite the opposing party to review and comment on the design-around as a means of defending a later claim of contempt.

• **Settlement** – Less than two weeks after the Federal Circuit affirmed the sanctions award, EchoStar settled with TiVo, reportedly paying more than $500 million.[33] Before the mandate issued, the parties approached the Federal Circuit and asked the court to dismiss the appeal. The Federal Circuit denied the request, commenting, "we determine that granting the motion to dismiss, which would result in a modification or vacatur of our *en banc* judgment, is neither required nor a proper use of the judicial system."[34]

Conclusions – This case provides five practical "takeaways":

1. Read the Injunction Closely – If you and your client are unfortunate enough to be enjoined, carefully review and consider the proposed injunction's language. At a minimum, think critically about (1) the effect the proposed injunction will have on the business, (2) how subtle changes in the language might dramatically affect outcomes, (3) whether the injunction is overbroad or unclear, and (4) the design-around options.

2. Object Early and Often – If the language of the proposed injunction is overbroad, vague or otherwise improper, courteously object at every opportunity. Make sure to preserve error by making your objections and then challenging objectionable language in the injunction when appealing the district court's final judgment. While preserving error, remember that you are an adjudged infringer, and no one likes a sore loser.

3. Develop and Implement a Plan – Early on, develop a clear "rainy day" plan. In this context, the adage that one should "plan for the best, and prepare for the worst" is particularly apt. Even while you plan for victory, exercise steely eyed discipline by counseling your client about an infringement disaster contingency plan. If a design-around is possible, consider that option both practically and strategically.

4. Be Consistent and Forthright – Avoid the *ad hoc* or convenient approach. This means you must not say then do two different things, even during the course of a multi-year litigation battle. Think about how current actions or inactions might look in the glare of 20/20 hindsight. Be careful to avoid even the appearance that the court is not fully being kept "in the loop." Having a coherent plan in place will go a long way toward avoiding unanticipated problems.

5. Critically Assess the 'Brilliant Idea' – All of us have had and acted, in the heat of battle, on brilliant insights that went terribly awry almost immediately. Before implementing a stunning strategic maneuver that comes to you in a flash, think hard about how it will affect your judge. Remember, an ounce of discipline is worth at least a pound of cure.

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32 *TiVo Inc. v. Dish Network Corp.*, 640 F. Supp. 2d 853, 869 (E.D. Tex. 2009) ("EchoStar contends that it invested 8,000 man-hours and over $700,000 in its redesign efforts.").

33 *TiVo Sees Its EchoStar Settlement as Strengthening Its Legal Position*, Consumer Electronics Daily, May 26, 2011.

34 *TiVo Inc. v. EchoStar Corp.*, No. 2009-1374, 2011 WL 1767314, *1 (Fed. Cir. May 10, 2011).

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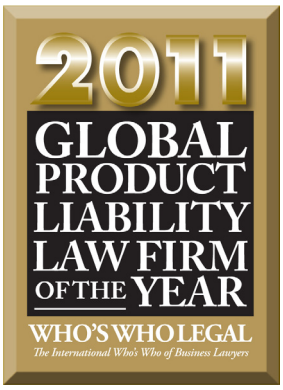

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