

# Federal Circuit Issues Ruling on Contempt Standard

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On April 20, 2011, the Federal Circuit issued its *en banc* decision in the case of *TiVo Inc. v. EchoStar Corp.* This decision is just the latest in the long-running battle between TiVo and EchoStar and was the result of EchoStar's appeal of the district court's finding that EchoStar was in contempt of the court's permanent injunction order. That injunction included two distinct provisions—one precluding ongoing infringement (the "infringement provision"), the other requiring disablement of DVR functionality in eight models of receivers found to infringe and identified in the order (the "disablement provision").

Beyond the facts of the present case, the decision is significant because the Federal Circuit rejected the prior two-step *KSM* analysis for contempt cases and clarified the standards governing contempt proceedings in patent infringement cases. As a result of this new standard, a divided (7-5) *en banc* majority (a) vacated and remanded the district court's finding of contempt of the infringement provision and (b) affirmed the court's contempt ruling of the disablement provision and the \$90 million sanctions award because EchoStar had waived arguments of overbreadth and vagueness.

As to the present dispute between TiVo and EchoStar, the *en banc* decision is unlikely to lead to a prompt resolution. Even if on remand the district court rules against EchoStar under the new contempt standard, EchoStar will be able to appeal that decision to the Federal Circuit. Outside the context of the present case, as explained below, the *en banc* decision can be viewed as making it more difficult to establish contempt. The Federal Circuit decision also highlights the advantage in appealing the scope of the injunction and/or seeking a modification or clarification of the injunction before implementing a design around.

## Background and Panel Decision

In 2004, TiVo sued EchoStar in the Eastern District of Texas, alleging infringement of U.S. Patent 6,222,389, which covers technology allowing television users to simultaneously record and play television broadcasts. In 2006, a jury ruled in TiVo's favor finding that eight different models of EchoStar DVRs infringed both hardware and software claims of the '389 patent. The jury awarded TiVo \$74 million, and the district court entered an injunction that included both the infringement and disablement provisions. As a result, EchoStar was ordered to stop infringing activities and disable the DVR functionality in existing receivers.

After EchoStar appealed issues of infringement and claim construction, the Federal Circuit reversed in part and remanded to the district court. Specifically, the infringement of the hardware claims was reversed, while the infringement of the software claims was affirmed. EchoStar did not appeal the grant or scope of the injunction.

Following that appellate decision, EchoStar implemented redesigned software that it downloaded into the DVR receivers. TiVo then moved for a finding that EchoStar's actions were in contempt of the court's injunction. The district court conducted a number of hearings and in June 2009, found EchoStar to be in contempt of both provisions of the injunction. With respect to the infringement provision, the court ruled that the redesigned infringing DVRs were "not more than colorably different" from the infringing devices, and continued to infringe the software claims. The district court also held that even if EchoStar had implemented a non-infringing redesign, it would still be in contempt of the disablement provision, which required EchoStar to disable the DVR functionality from the specifically identified DVRs. The court imposed a \$90 million sanction against EchoStar based on its contempt ruling.

In March 2010, a three-judge panel of the Federal Circuit, in a 2-1 decision, affirmed the district court's contempt decision. The panel held that EchoStar (a) violated the infringement provision under *KSM Fastening Systems v. H.A. Jones Co.*, 776 F.2d 1522 (Fed. Cir. 1985) and (b) waived arguments as to the enforceability of the disablement provision by failing to raise them on appeal or before the district court.

### ***En Banc* Decision**

The *en banc* decision can be separated into two parts—the first addressing the proper procedure for a contempt proceeding; the second addressing the merits of the district court's decision in the present dispute.

#### ***The standard for determining contempt in cases of alleged infringement:***

The *en banc* ruling was unanimous in clarifying the standard. First, the Federal Circuit underscored that "good faith" is not a defense to civil contempt. That is, "a lack of intent to violate an injunction alone cannot save an infringer from a finding of contempt." (Op. at 16). Second, the Federal Circuit overruled the two-step test set forth in *KSM*, finding it to be unworkable. That test required a threshold determination that a contempt proceeding is appropriate based on the "no more than colorable differences" test and then determine the merits—*i.e.*, whether there was, in fact, contempt. The *en banc* decision provides a new approach: "What is required for a district court to hold a contempt proceeding is a detailed accusation from the injured party setting forth the alleged facts constituting the contempt." (Op. at 17-18). The decision to conduct contempt proceedings, however, is expressly "left to the broad decision of the trial court to be answered based on the facts presented." (Op. at 17).

The Federal Circuit confirmed that district courts should continue to rely on a "colorable differences" test, but clarified the application of that test. "The primary question on contempt should be whether the newly accused product is so different from the product previously found to infringe that it raises 'a fair ground of doubt as to the wrongfulness of the defendant's conduct.'" (Op. at 19).

The *en banc* ruling rejected the infringement-based understanding of the colorable differences test: "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 products." (Op. at 19). The Federal Circuit explained that if the "differences between the old and new elements are significant, the newly accused product as a whole shall be deemed more than colorably different from the adjudged infringing one, and the inquiry into whether the newly accused product actually infringes is irrelevant." (Op. at 20). In such a scenario, contempt is inappropriate.

The *en banc* decision further emphasized that even when a district court determines there to be no more than colorable differences between the earlier infringing product and the new product, the court must also find that the new product infringes the relevant patent claims for the defendant to be found in violation of an injunction against infringement. The burden of proving a violation of an injunction is with the patentee and is by clear and convincing evidence, which applies to both infringement and the colorable differences test.

***The merits of the district court contempt finding:***

On the merits of the district court's contempt ruling, the Federal Circuit split 7-5. The majority opinion was written by Judge Lourie who was joined by Judges Newman, Mayer, Bryson, Moore, O'Malley and Reyna. The dissent was written by Judge Dyk and joined by Chief Judge Rader and Judges Gajarsa, Linn and Prost. Notably, neither Judge O'Malley nor Judge Reyna were on the Federal Circuit until after all briefing and argument had been completed. Such participation by newly-appointed members is unusual. In addition, Judge Mayer sat on the initial three-judge panel, but went senior status prior to the *en banc* argument and did not attend the argument. Therefore, the majority *en banc* decision relied upon garnering three votes from judges who were either new to the case or did not attend the *en banc* argument.

With respect to the application of the "colorable differences" test to the present case, the majority found that EchoStar replaced the accused feature relating to the "parsing" limitation and that the district failed to evaluate whether that new feature was no more than colorably different than the accused feature and whether the replaced feature continued to meet the parsing limitation. The majority remanded to the district court for a factual determination on these issues and therefore, vacated the district court's finding of contempt of the infringement provision.

With respect to the violation of the disablement provision, the majority rejected EchoStar's vagueness and overbreadth challenges on the basis of waiver. EchoStar never appealed the grant or scope of the injunction to the Federal Circuit, nor sought a modification or clarification of the injunction's terms with the district court. The majority's explanation is instructive: "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." (Op. at 33-34). "[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." (Op. at 26).

The majority also found that the injunction was not overly broad, explaining that the "disablement provision of the injunction required disablement only of that DVR software component in eight specific models of receivers that had been found infringing by the jury." (Op. at 33). More importantly, the majority noted that non-

infringing activity can be enjoined: "[A]lthough we have strongly discouraged judicial restraint of non-infringing activities, we have never barred it outright and instead have repeatedly stated that the district courts are in the best position to fashion an injunction tailored to prevent or remedy infringement." (Op. at 35, fn. 9). Accordingly, the Federal Circuit upheld the \$90 million contempt sanction in violation of the disablement provision of the injunction.

The dissent, authored by Judge Dyk, argued that the infringement provision was plainly not violated and therefore, there was no need to remand to the district court on that issue. The dissent's primary dispute was with the majority's affirmance of contempt as to the disablement provision. There the dissent emphasized that the provision was insufficiently clear to provide proper notice to the accused infringer. The dissent also was troubled by the seeming disregard of the strong policy in favor of design arounds and the impact of the majority's decision on that policy.

### **The Impact Going Forward**

As to the present litigants, the *en banc* decision is unlikely to lead to a prompt resolution. As an initial matter, EchoStar has indicated that it will seek a prompt review of the *en banc* decision by the Supreme Court and seek to stay imposition of the injunction's disablement provision.

Once the case is remanded, the district court will need to follow the Federal Circuit's guidance to determine if there is contempt and infringement. In any event, if the district court rules against EchoStar under the new standard, EchoStar will likely appeal that decision to the Federal Circuit. In addition, EchoStar has provided the district court with another design around it has prepared should the first design around be found to be infringing. The *en banc* decision removed the district court's requirement that EchoStar receive pre-approval from the district court before implementing such a design around. Therefore, EchoStar is free to implement the next design around. The bottom line is that the dispute between TiVo and EchoStar is unlikely to end anytime soon.

Outside the context of the present litigation, the *en banc* decision can be seen as making it more difficult to establish contempt because now the patentee must show that a modified feature is no more than colorably different from the accused feature and also meets the accused limitation of the claim. The outcome of the case further countenances that enjoined defendants should appeal the scope of the injunction and/or seek a modification or clarification of the injunction from the district court before implementing a design around.