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EchoStar Ruling Offers Lessons For Cos., Attys Say

By **Erin Coe**

Law360, New York (April 20, 2011) -- The Federal Circuit's Wednesday decision siding in part with TiVo Inc. in its long-running infringement battle with EchoStar Corp. over a digital video recorder patent should be a lesson to companies to seek clarification of an injunction before attempting to design around a patent, attorneys say.

In a 7-5 en banc decision, the appeals court upheld that EchoStar was in contempt of a permanent injunction for failing to disable digital video recorder features in TV set-top boxes and affirmed a sanctions award of $90 million to TiVo.

EchoStar had argued that the injunction was unenforceable because it was overly broad or too vague to provide fair notice of what it actually prohibited, but the Federal Circuit said the company waived its arguments because it should have raised them when a district court issued the injunction.

"To hold otherwise would indeed impose an unnecessarily heavy burden on district courts to draft immaculate orders — a burden that neither the federal rules nor the Supreme Court mandate — and would radically constrict district courts' inherent power to enforce their orders," Circuit Judge Alan Lourie wrote for the majority.

EchoStar may well have successfully designed around TiVo's patent, yet EchoStar was left on the wrong end of a $90 million contempt sanction because the injunction barred even noninfringing activity, according to David Brafman, of counsel at Akerman Senterfitt LLP.

"The most important takeaway is the absolute need to seek clarification or modification of the scope of an injunction as soon as it is handed down," he said. "EchoStar waived the right to challenge the breadth of the injunction on appeal by failing to raise it earlier."

In light of this ruling, defendants enjoined from infringing activity should ask for clarification of an injunction before undertaking a design-around on a patent, according to Jessica L. Copeland of Hodgson Russ LLP.

"Overbreadth and vagueness of an injunction must be challenged on appeal of the injunction, not after implementation of a design-around that may not qualify," she said. "And certainly not as late as an appeal from a finding of contempt of that injunction. Infringer, beware."

However, EchoStar was not dealt a complete setback on Wednesday. The appeals court vacated a Texas district court's finding that EchoStar was in contempt of the injunction's provision for infringement of TiVo's patent and remanded the case to the lower court to review whether design-around technology in newer set-top boxes still violated TiVo's patent.

The district court had found EchoStar in contempt after concluding that its modified product was not colorably different from the infringing product and the sale of the new product breached the injunction.

Under the Federal Circuit's two-step test in KSM Fastening Sys. Inc. v. H.A. Jones Co., courts are required to first determine whether a contempt proceeding is proper by using the colorable difference analysis and then decide whether contempt actually happened.

EchoStar argued on appeal that the district court improperly decided whether EchoStar's modified software continued to infringe TiVo's patent in a contempt proceeding, and instead should have held a new trial on the merits.

The Federal Circuit on Wednesday overruled the KSM test as unworkable and set forth a new test giving courts broad discretion in determining whether to hold a contempt proceeding as long as the injured party presents a detailed accusation that lays out the alleged facts constituting the contempt.

"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," Judge Lourie wrote.

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," according to the opinion.

Many attorneys said the court's guidance on the test for determining contempt should provide clarity to litigants involved in a case where infringing conduct is enjoined.

"The court retains the 'more than colorable difference test' for contempt, but makes clear that an analysis under that test must focus on the differences between the features that were the basis of the original infringement and the modified features in the new product," said Richard Brown, a partner of Day Pitney LLP.

As a result of this decision, a court will now look at the how the features that were the basis of the earlier infringement finding have changed, and if a feature is removed or modified, the question will be whether the modification was significant. The decision appears to foreclose contempt arguments based on features that were not previously the basis for the infringement finding, according to Brown.

"The opinion provides the frame of reference for the court to use in analyzing whether a new product is more than colorably different than an old product," he said.

The decision provides some guidance for those who are looking to design their way out from under an injunction, depending on the injunction's scope, according to Daniel Yannuzzi, a partner of Sheppard Mullin Richter & Hampton LLP.

"The enjoined entity should focus design-around activities on elements that were alleged to be infringing and that were a basis for the prior finding of infringement," he said. "If those design-around activities yield modifications to or removal of such elements and those differences are deemed to be significant, that should yield a finding that the new product is more than colorably different and an inquiry into whether the new product infringes is irrelevant."

But even if the differences are not more than colorable, the injunction might still be avoided by the design around where the modified elements no longer meet the limitations of the asserted claims, he said.

“The ruling gives people a way out without having to address the question of infringement,” he said.

However, Brafman said the Federal Circuit’s test may be hard for district courts to apply.

“It’s difficult to see how the courts are going to look at the significance of changes to a modified product without referencing infringement,” he said. “I think courts are going to have to struggle a little bit to come up with some clarity on how to determine whether a modification is significant without reference to infringement. What other yard stick are they going to use to determine if the changes are significant?”

In a partial dissent, Circuit Judge Timothy Dyk said he disagreed with the majority opinion affirming the finding of contempt of the disablement provision. He argued that the provision did not bar the installation of modified software that renders the devices noninfringing, and that an unclear injunction could not be the basis for contempt.

He also said the case should not be remanded to the district court to determine whether EchoStar violated the infringement provision, contending that the provision plainly was not violated, and said the sanctions award should not have been upheld because it was partly based on the improper finding of contempt of the infringement provision. Chief Judge Randall Rader and Circuit Judges Arthur Gajarsa, Richard Linn and Sharon Prost joined that dissent.

TiVo said in a statement that it was pleased with the Federal Circuit’s decision to uphold the contempt finding on the disablement provision and award of sanctions, and it looks forward to the injunction finally being enforced against EchoStar and affiliate Dish Network Corp. related to the DVRs they must disable.

“This ruling also paves the way for TiVo to receive substantial damages and contempt sanctions regarding the DVRs that EchoStar and Dish Network failed to disable,” TiVo said. “With respect to the remand of the infringement provision of the district's courts order, we intend to pursue the most rapid path to resolution.”

EchoStar said it was disappointed that the Federal Circuit upheld the district court’s ruling on the disablement question.

“We intend to seek review of that part of the decision by the U.S. Supreme Court and seek a stay of the injunction while doing so,” EchoStar said.

It added that it also plans on making a motion to dissolve the injunction based on TiVo’s recent representations to the U.S. Patent and Trademark Office that substantially limit the scope of the claims at issue in the case.

The disablement ruling covers certain older generation MPEG2 DVRs, and EchoStar said if it is not able to secure a stay, it will work quickly to upgrade its remaining customers to its current generation DVRs, which are not at issue in the ruling.

The companies have been embroiled in litigation over the time warp patent, which covers a method of recording one program while playing back another, since January 2004, when TiVo initially filed its patent infringement suit.

After a jury found in 2006 that Dish had infringed TiVo's patent and ordered the company to pay $73.9 million in damages in addition to the injunction, the defendant vowed to redesign its DVRs around the TiVo patent.

TiVo subsequently launched contempt proceedings, and the district court in June 2009 found that EchoStar and Dish were in contempt of the infringement and disablement provisions of the injunction.

A three-judge panel of the Federal Circuit in March 2010 found that the district court did not abuse its discretion in imposing sanctions, but that decision was vacated in May when the Federal Circuit granted EchoStar's motion for an en banc review.

The patent-in-suit is U.S. Patent Number 6,233,389.

TiVo is represented by WilmerHale and Irell & Manella LLP.

EchoStar and Dish are represented by Orrick Herrington & Sutcliffe LLP, Finnegan and Morrison & Foerster LLP.

The case is TiVo Inc. v. EchoStar Corp. et al., case number 2009-1374, in the U.S. Court of Appeals for the Federal Circuit.

--Additional reporting by Samuel Howard and Chris Norton. Editing by Andrew Park.