



# Contempt is dead (*KSM*); long live contempt (*TiVo v Echostar*)

## THE CASE:

*Tivo Inc v Echostar Corp*

United States Court of Appeals for the Federal Circuit (CAFC)

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**Kenneth R Adamo** of Kirkland & Ellis LLP looks at the new rules for post injunction contempt proceedings directed to a “design-around” new product

**In *TiVo Inc v Echostar Corp et al.*, Appeal No. 2009-1374, slip op. (Fed. Cir. April 20, 2011), the United States Court of Appeals for the Federal Circuit (Federal Circuit), sitting *en banc*, revised and restated how a US patent owner may continue to enforce its patent after a successful first action leading to an injunction against patent infringement, where the adjudged infringer has modified the infringing product / process. Overruling its prior decision in *KSM Fastening Systems v HA Jones Co.*, 776 F.2d 1522 (Fed. Cir. 1985) (*KSM*), the court stated a new contempt analysis to determine the effectiveness of an alleged “design around” in avoiding a post-verdict injunction.**

In sum, the Federal Circuit held that:

As a result of our consideration of this case *en banc*, we hold that the two-step *KSM* analysis is unsound in contempt cases and we clarify the standards governing contempt proceedings in patent infringement cases. We therefore vacate the district court’s finding of contempt of the infringement provision of the permanent injunction, and remand to the district court to make a factual determination of colourable differences under the new standard we lay out here. We thus vacate in part the damages awarded to TiVo for EchoStar’s continued infringement. However, we once again affirm the district court’s finding of contempt of the disablement provision of the permanent injunction and its sanctions award in its entirety because we conclude that EchoStar waived arguments of overbreadth and vagueness with regard to that provision.

Slip op. at 7.

## Background: the patent, the trial, the injunction and the prior appeal

TiVo Inc (“TiVo”) owns US Patent 6,233,389, “Multimedia Time Warping System.” The patented technology allows television users to simultaneously record and play (“time-shift”) television broadcasts using a digital video recorder (“DVR”). A DVR allows users to fast-forward, rewind, pause, and replay a “live” television programme while it is playing on the television set. TiVo’s patent covers various features essential to the working of a DVR.

In 2004, TiVo sued EchoStar in the United States District Court for the Eastern District of Texas, alleging that its receivers infringed, *inter alia*, “software” claims 31 and 61 of the ‘389 patent.

The trial court submitted questions of infringement and invalidity to the jury, regarding the accused EchoStar satellite television receivers. *TiVo, Inc v Dish Network Corp.*, No. 2:04-CV-00001, ECF No. 690 (E.D. Tex. Apr. 13, 2006). On infringement, the jury was asked whether eight different models of EchoStar receivers, three of the 50X series and five of the Broadcom series, literally infringed the hardware or software claims of TiVo’s patent. The jury answered “yes” for each of the asserted claims, for each of the eight listed receivers. It also found, by clear and convincing evidence, that EchoStar’s infringement was willful, and awarded TiVo approximately \$74 million in lost profits and reasonable royalties. The trial court entered judgment on the verdict and issued a permanent injunction against EchoStar. In its injunction, the trial court ordered EchoStar: (1) to stop making, using, offering to sell and selling the receivers that had been found infringing by the jury (the “infringement” provision) and (2) to disable the DVR functionality in existing receivers that had already been placed with EchoStar’s customers and in new placements that were yet to be placed with EchoStar’s customers (the “disablement” provision).

Following the entry of final judgment by the trial court, an appeal to the Federal Circuit was filed; the court affirmed in part, reversed in part, and remanded the trial court’s decision. The Federal Circuit found no error in the trial court’s construction of the software claims and affirmed the jury’s verdict that the EchoStar devices infringed the software claims of the ‘389 patent. *TiVo, Inc v EchoStar Communications Corp.*, 516 F.3d 1290, 1310 (Fed. Cir. 2008).

At that time, EchoStar had not appealed the trial court’s grant of a permanent injunction. The Federal Circuit noted that the trial court’s injunction, which had been stayed during the course of the appeal, would take effect following its decision. *Id.* at 1312. The court remanded to the trial court to make a determination as to any additional damages that TiVo may have sustained while the stay of the permanent injunction had been in effect.

## The contempt proceedings

Following the remand, TiVo moved the trial court to find EchoStar in contempt of the court’s permanent injunction. After conducting a series of hearings on TiVo’s motion, the trial court ruled that EchoStar was in contempt of both provisions of its permanent injunction.

*With regard to the infringement provision*, the trial court rejected EchoStar’s argument that it had redesigned its infringing receivers in a manner that rendered them more than colourably different from the adjudged infringing devices. EchoStar contended that it had redesigned the infringing software on both the 50X and the Broadcom receivers so that the “parsing” limitation of claim 31 was no longer satisfied, because it had replaced the “start code detection” feature, which was originally alleged by TiVo to meet the parsing limitation, with a “statistical estimation” feature.

*With regard to the disablement provision*, the trial court held that even if EchoStar had

achieved a non-infringing design-around, EchoStar would still be in contempt because it had failed to comply with the plain language of the disablement provision in the trial court's injunction requiring it to disable DVR functionality completely from the specifically – named receiver models adjudged to be infringing at trial.

In view of EchoStar's contempt, the trial court imposed sanctions against EchoStar in the amount of nearly \$90 million. *TiVo Inc v Dish Network Corp.*, 655 F. Supp. 2d 661, 666 (E.D. Tex. 2009). The court also awarded damages to TiVo for the continued infringement by EchoStar's redesigned software. *Id.*

### The Federal Circuit clarifies The contempt standard in alleged continued post-verdict infringement

In its "discussion," the *en banc* court set out its approach to providing what it called "clarification" of the standard where an injunction was put in place, post-verdict; the adjudged infringer then "designed around" the infringement; and the patent owner cried "contempt" of that injunction resulting from continued infringement:

EchoStar argues that it was improper for the district court to decide issues relating to continued infringement by EchoStar's modified software in a summary contempt proceeding, as opposed to a new trial on the merits, and to find EchoStar in contempt of the infringement provision of the injunction. According to EchoStar, its modifications to the infringing DVR software rendered the modified receivers more than colourably different from the one found infringing in the prior jury trial. Moreover, EchoStar contends, it undertook a "Herculean" effort in redesigning the DVR software in its receivers and, by obtaining opinions of counsel, it made a good faith effort to ensure that its devices would no longer infringe the software claims of TiVo's patent.

Slip op. at 15.

**Effect of good faith.** First, the court disposed of EchoStar's argument that contempt was improper where the defendant engaged in diligent, good faith efforts to comply with the injunction and had an objectively reasonable basis to believe that it was in compliance. Not so, said the Federal Circuit: EchoStar was misreading controlling US Supreme Court precedent in making that contention, which precedent held that a lack of intent to violate an injunction alone cannot save an infringer from a contempt finding. (Slip op. at 15-16.)

**KSM overturned.** Next, the court turned to its existing two-part test, that had to be applied in finding a defendant in contempt of an injunction in patent infringement cases, as stated in *KSM Fastening Systems, Inc v H A Jones Co., Inc.*, 776 F.2d 1522, 1530-32 (Fed. Cir. 1985). (Slip op. at 16-17.) That *KSM* test, the court found, could no longer stand:

*KSM* crafted a special rule for patent infringement cases, in that it required a threshold inquiry on the propriety of initiating a contempt proceeding. We recognise now that that inquiry confuses the merits of the contempt with the propriety of initiating contempt proceedings. Moreover, as a practical matter, district courts do not separately determine the propriety of a contempt proceeding before proceeding to the merits of the contempt itself. As a result, we will telescope the current two-fold *KSM* inquiry into one, eliminating the separate determination whether contempt proceedings were properly initiated. That question, we hold, is left to the broad discretion of the trial court to be answered based on the facts presented. ... 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. As with appeals from findings of civil contempt in other areas of law, we will only review whether the injunction at issue is both enforceable and violated, and whether the sanctions imposed were proper. Allegations that contempt proceedings were improper in the first instance do not state a defence to contempt. As to the question whether an injunction against patent infringement has been violated, courts should continue to employ a "more than colourable differences" standard as discussed below.

Slip op. at 17-18 (emphasis added, citation deleted). The court declined to address EchoStar's argument that the trial court, in applying the old *KSM* standard, improperly held contempt proceedings. There was no abuse of discretion in proceeding in contempt, as the trial court had found that the source code modification had resulted in the modified EchoStar receiver software not being more than colourably different from the original one. (*Id.* at 18.)

**The New Contempt Test.** Now, the court turned its attention to synthesising the new rules

of patent infringement contempt. (Slip op. at 18-19.) Its chosen route was to reject the infringement – based understanding of "colourably different" that arose because of *KSM*:

We have previously interpreted that inquiry in patent cases as one of colourable differences between the newly accused product and the adjudged infringing product. ... Thus, the party seeking to enforce the injunction must prove both that the newly accused product is not more than colourably different from the product found to infringe and that the newly accused product actually infringes.

We have stated the test for colourable differences as one that requires determining whether "substantial open issues with respect to infringement to be tried" exist. *KSM*, 776 F.2d at 1532. In some cases, that has misled district courts to focus solely on infringement by the newly accused devices in deciding contempt. That is the case here. Today, we reject that infringement – based understanding of the colourably different 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.

Slip op. at 18 (emphasis added).

The particulars as to how to apply the new test were then explored at some length:

Specifically, one should focus on those elements of the adjudged infringing products that the patentee previously contended, and proved, satisfy specific limitations of the asserted claims. Where one or more of those elements previously found to infringe has been modified or removed, the court must make an inquiry into whether that modification is significant. If those differences between the old and new elements are significant, the newly accused product as a whole shall be deemed more than colourably different from the adjudged infringing one, and the inquiry into whether the newly accused product actually infringes is irrelevant. Contempt is then inappropriate. ...

The significance of the differences between the two products is much dependent on the nature of the products at issue. The court must also look to the relevant prior art, if any is available, to

determine if the modification merely employs or combines elements already known in the prior art in a manner that would have been obvious to a person of ordinary skill in the art at the time the modification was made<sup>1</sup>. *A nonobvious modification may well result in a finding of more than a colourable difference. Where useful, a district court may seek expert testimony in making the determination. ...*

The analysis may also take account of the policy that legitimate design-around efforts should always be encouraged as a path to spur further innovation.... But an assertion that one has permissibly designed around a patent should not be used to mask continued infringement.

Slip op. at 19-21 (emphasis added, citations deleted). In an attempt to head off later attempts at convolving the law of obviousness with the new "colourable differences" definition, the court hedged in footnote 1 (see above): "We do not suggest that the law on obviousness is binding in contempt proceedings, where, in most cases, a single limitation that has been modified by an infringer is at issue. However, the innovative significance of the modification is best viewed in light of the existing art and from the perspective of one of ordinary skill in the art." (Slip op. at 20, n. 1.)

If "more than a colourable difference" is not found, the trial court must then decide whether the (new) "design-around" infringes: "[T]he court is required to evaluate the modified elements of the newly accused product against the asserted claim on a limitation by limitation basis, to ensure that each limitation continues to be met. In making this infringement evaluation ..., the district court is bound by any prior claim construction that it had performed in the case." Slip op. at 21 (emphasis added).

**Burdens of proof, appellate review standards.** Last but not least, the court stated the burden of proof for a contempt finding and the standard of review of such a finding:

The patentee bears the burden of proving violation of the injunction by clear and convincing evidence, a burden that applies to both infringement and colourable differences. As with other factual determinations, both findings are reviewed for clear error. Where the court finds a violation and awards sanctions, such a sanctions award is reviewable for an abuse of discretion.

Slip op. at 21-22 (ftn. deleted).

### **Remand concerning contempt of injunction, infringement provision**

To determine whether the trial court had properly found contempt for violation of the infringement provision of the injunction, the court then applied its new two-part contempt test. Under the new rules, the Federal Circuit found error and remanded:

Applying the test in this case, one of the features of EchoStar's original receivers that TiVo relied upon to prove infringement to the jury was the start code detection feature. TiVo argued, and the jury accepted, that that feature satisfied the "parsing" limitation found in the software claims. It is undisputed that EchoStar replaced that feature with a statistical estimation feature. In finding contempt of the infringement provision of the injunction under our *KSM* standard, TiVo alleged, and the district court looked to, a different feature of EchoStar's modified devices, viz., the PID filter, as meeting the parsing limitation of the software claims. ...

The district court found no need to evaluate the newly designed statistical estimation feature to determine whether it was significantly different from the start code detection feature, the feature that had been previously alleged by TiVo to meet the parsing claim limitation, and whether the replaced feature continued to meet the parsing limitation of the software claims. *Our holding today requires that those issues be determined on remand because the statistical estimation feature is the replacement for a feature that had been previously alleged to be infringing. ...* It is also possible that, in a new infringement proceeding, a fact finder could conclude that the PID filter in EchoStar's redesigned device meets the "parsing" limitation and that the devices continue to infringe the asserted claims, but that should not be decided in a contempt proceeding.

Slip op at 22-24 (emphasis added); see also slip op. at 24, nn 3-4.

### **Waiver of challenges to injunction Concerning contempt for violation of disablement provision**

EchoStar did not fare so well in connection with its allegations that the "disablement" provision of the injunction was unenforceable, either because it was overbroad or too vague to provide fair notice of what it actually prohibited. The court found that EchoStar

had waived those bases for challenge to the contempt finding by waiting too long to challenge the injunction on these grounds.

As to vagueness, the majority found that, while in certain circumstances vagueness can operate as a defence to contempt, where a party has bypassed opportunities to present its asserted 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 the party's conduct. (Slip op. at 27; see slip op. at 27-32). As to overbreadth, the majority found that EchoStar's contention that the contempt order, even if the trial court's reading of the disablement provision was proper, would still be unenforceable because the prohibition of non-infringing activity which resulted from overbreadth was unlawful, and also had been waived. (Slip op. at 33-35 and n. 9).

The dissenters refused to join in Parts A(3) (b) and B, where the majority stated, *inter alia*, its bases for finding both of EchoStar's grounds for unenforceability of the injunction for either overbreadth or vagueness to have been waived, instead setting out multiple US Supreme Court and appellate decisions that they maintained showed that the majority had gotten it wrong. (Dissent, slip op, at 2 *et seq.*)

### **What TiVo resolves; what it (possibly) does not?**

The key issues re-cast in *TiVo* concerning contempt as a remedy for alleged failure of a post-verdict "design around" to stay clear of enjoined conduct, are that the Federal Circuit

- (1) ends the two-step *KSM* test for determining contempt, retains the "more than colourable difference test," and makes clear that an analysis under that test must focus on the differences between the features that were the basis of the original infringement read and the modified features in the new product; any starting focus on infringement by the modified product / process done is incorrect. The court held the initial focus must be on the differences between the features of the infringing product and the changed features of the newly accused products, only after which infringement of the new product is to be addressed if less than a colourable difference is found
- (2) An enjoined adjudged infringer must ask for any clarification or modification of any injunction language as soon as possible, at the trial court level; certainly, clarification or modification must be sought before beginning or arriving at a "design around". Waiting to raise alleged lack of clarity or any problems rooted in the injunctive language until either a contempt hearing or an appeal from a contempt holding, is likely to be fatal.

But has TiVo resolved all issues concerning post-injunction “design around(s)” and the contempt remedy?

### Consider

1. The meaning of the word “significantly” / “significance,” that is central to the new “colourable differences” analysis, is arguably less than clear. At best, the court appears to have said that a modification of a feature that leads to a “more than colourable” difference / conclusion, is “significant”. The circular nature of that “definition” is apparent. Also, if a feature of the infringing product is absent in the “design around,” is that *per se* “significant,” if it is a feature relied upon by the patent owner at trial to prove response to a claim element? That would appear to be so, but is there a possible doctrine of equivalents work-around to that issue? It is likely that further litigation and court rulings will be necessary to flesh-out “significant”’s meaning.
2. Trial courts are likely, at least initially, to run into situations where the Federal Circuit’s instruction not to consider infringement, unless and until a not “more than a colourable difference” finding is made, will be difficult in the application. Differentiating between the two concepts / instructions is not likely to be apparent in every situation, as one may believe, if there is a finding of *not* “more than a colourable difference,” that that would force a conclusion of infringement in every case. If the infringing device had a feature that infringed an element literally, then that feature was modified to avoid literal response but the change was found not to be “significant,” then a not “more than a colourable difference” finding should follow, which would, arguably, pre-decide infringement under the doctrine of equivalents. Care to properly consider the specifics of application of the DOE, including all of the *Hilton-Davis* criteria (especially prosecution history estoppels and dedications to the public, as well as *Wilson Sporting Goods* issues), will be of particular importance to keep the “more than a colourable difference” finding from subsuming the infringement analysis, reinstating (as it were) the overruled *KSM* analysis.
3. There appears to be potential confusion regarding the nature of the application of obviousness / non obviousness concepts to deciding whether the modification (or removal) of the feature relied upon at trial by the patent owner to show response to a claim element is “significant.” The tests for obviousness, because they focus on the claimed invention as a whole under a *Graham* analysis, do not seem to interface well with the element-by-element based

analysis of “significance” of a modification (or removal) of a feature (whereas the DOE, which acts element-by-element, if at all, relates better to the significance of modification analysis). Again, it is likely that further litigation and court rulings on this point will be necessary to clarify the obviousness / nonobviousness v “significance” interface.

4. For “design around” effectiveness, focus must remain on the features of the adjudged infringing product / process which the patent owner relied upon at trial to show response to specific claim elements. A weather-eye must be kept on the subsequent infringement test, though, for if the “design around” feature change is found *not* to be significant and, thus, not “more than colourably different,” contempt will ride totally on the infringement question. Claim elements that have DOE problems under *Hilton – Davis* and related – precedent (eg prosecution history estoppel, dedication to the public, *Wilson Sporting Goods*), should be those first reviewed to re feature changes in the adjudged infringing product / device to effect “design around.” Such a modification might not hurdle the “significance” fence, but it might avoid literal infringement of an element which has no DOE applicability available. If infringement of an element was as a result of application of the DOE in the first instance, query whether the DOE analysis reflected onto the “design around” feature should inform / control the “significance” analysis concerning the “more than colourable difference” criteria, when a modification in that element is later made?
5. The Federal Circuit seemed clear that if the feature(s) modified / removed, that were necessary to show infringement at trial of the adjudged infringing product / process, were “significantly” different from the original features, so as to lead to a “more than colourable differences” finding, inquiry into whether the new product/process infringes was moot, such that the second part of the analysis should not be made. To minimise the chances of such a result, the patent owner should, if an easy “design-around” of a claim element or elements is apparent, try to “over prove” infringement at trial, eg should show that more than one feature of the accused product / process responds to those “easy-around” elements, and / or that, if the feature was modified in manner X, it would, if it infringed literally, at least still infringe under DOE if that modification was made and found “significant”. Query, whether if only literal infringement of the original, unmodified feature is proved at trial, may infringement of the modified feature under the DOE be proved up for first

time in a contempt situation, particularly where the patent owner’s expert report may not have addressed the DOE at all?

6. The tactical circumstances where, in the long run, simply bringing a new patent infringement claim and standing a second trial, may prove complicated and vexing to consider / resolve. The potential effects of *eBay v Merc Exchange* on any attempt to secure preliminary injunctive relief in such a new case would need to be weighed in that decision, including whether to site the new suit in the same venue as the first, and whether to declare the case a related case to the second suit if a different venue is selected. Query whether a way exists that would enable a patent owner to “Roman-ride” both alternatives, such that they would proceed simultaneously without loss of total elapsed time to a result?
7. Concerning any necessary new infringement proceedings if there are more than colourable differences, the Federal Circuit’s statements concerning the application of claim and issue preclusion are less than clear in hypothesised application (see slip op. at 24, fn. 4), although it is assumed that the original claim construction would control with no possibility of a “do-over”.

### Summary

*TiVo*, while preserving the contempt remedy as one of powerful potential applicability where an adjudged infringer has attempted a “design around” of any injunction entered after trial, may have only substituted a new, complex analysis for an old, complex analysis which took over 25 years to be labelled incapable of correct application by many trial courts. Time will tell whether the result is an improvement or only a move sideways, such that the problems only changed their colours but remain.

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