

## Sanctions May Be Awarded for Violation of Injunction, Even Absent Infringement

April 21, 2011

On April 20, 2011, the Federal Circuit unanimously revised the two-step test set forth in *KMS Fastening Systems* for determining when a contempt order is appropriate for an alleged violation of an injunction by a modified product. However, a divided court affirmed the finding of contempt of injunction and sanctions, but vacated and remanded findings of contempt of infringement, pending a finding on the issue of “colorable difference” between previously adjudicated infringing devices and devices incorporating an alleged design-around.

A unanimous U.S. Court of Appeals for the Federal Circuit revised the two-step test set forth in *KMS Fastening Systems* for determining when a contempt order is appropriate for an alleged violation of an injunction by a modified product. However, a divided (7-5) court affirmed the district court finding of contempt of injunction and sanctions, but vacated and remanded findings of contempt of infringement, pending a finding on the issue of “colorable difference” between previously adjudicated infringing devices and devices incorporating an alleged design-around. *TiVo, Inc. v. EchoStar Corp. et al.*, Case No. 09-1374 (Fed Cir. April 20, 2011) (*en banc*) (Lourie, J.) (Dyk, J., dissenting in part, joined by Judges Rader, Gajarsa, Linn, and Prost).

At trial, the district court issued a permanent injunction against EchoStar, ordering EchoStar to stop making, using, offering to sell and selling digital video receivers (DVRs) that had been found infringing. The district court further ordered EchoStar to disable DVR functionality in existing receivers. Following an appeal on unrelated issues, during which time EchoStar modified its DVRs in an attempt to avoid infringement, TiVo moved the district court to find EchoStar in contempt of the original injunction. The district court ruled that EchoStar was in contempt because the modified DVRs continued to infringe, despite EchoStar’s attempts at redesign. The district court additionally found that even if EchoStar had succeeded in a non-infringing design-around, it would still have been in contempt because it had not complied with the disablement provision of the injunction. The district court held that the disablement provision extended to *all* digital video recording functionality and not just *infringing* functionality.

## New Rules for Contempt Proceedings Involving Modified Products

In the unanimous portion of the decision, the Federal Circuit held that, with regard to contempt for violation of the infringement provision, a defendant's diligence and good faith efforts at a design around are not a viable defense, the propriety of a contempt proceeding need not be a separate determination from an inquiry regarding continued infringement, and, for a contempt analysis, a newly accused device must be more than colorably different from the previously adjudicated infringing devices, and must, under the same claim construction used earlier, actually infringe the asserted patent claims. The unanimous *en banc* court also held that when deciding whether a modified product should be subject to contempt proceeding versus a new trial on infringement, the district court should determine whether there is more than a colorable difference between the newly accused device and the previously adjudicated infringing devices focusing on the portions of the accused product that were the basis for the prior finding of infringement.

The court explicitly overruled its prior (1985) *KSM Fastening System* standard characterizing it as "unworkable." The prior rule involved a two-part inquiry requiring a district court to first assess whether the redesigned devices are colorably different from the adjudged infringing devices to determine whether a contempt hearing is appropriate. Then, if a contempt hearing is deemed appropriate, the district court had to determine whether the redesigned devices did in fact constitute a contempt; *i.e.*, an infringement.

The *en banc* court has eliminated the initial colorable difference determination in order to assess whether contempt proceedings are proper. Under the new standard, courts have broad discretion to consider modified products in the context of a contempt proceeding, so long as the movant provides "a detailed accusation ... setting forth the alleged facts constituting the contempt." However, the "colorable difference" standard still applies to evaluation of whether an injunction against patent infringement has been violated. Thus, for a contempt finding, a newly accused device must both actually infringe the asserted claim(s) and must not be more than colorably different from the previously adjudicated infringing devices. The court pointed out that the contempt analysis must first focus on the "differences between the features relied upon to establish infringement and the modified features of the newly accused products." If it is determined that the modification is significant, the newly accused device is necessarily

more than colorably different. Thus, unless the newly accused device is deemed to not be more than colorably different from the originally adjudicated infringement, an assessment of whether the modified device infringes is irrelevant for the purpose of contempt.

*Merits Issue Raises Vigorous Dissent*

On the merits of the present case, the majority found that with regard to contempt for violation of the disablement provision vagueness (of the original order) does not operate as a defense, and failure to raise the issue of an on direct appeal prevents later use of overbreadth as a defense. The dissent criticized the holding that lack of clarity does not operate as a defense to contempt and the holding that the district court should determine whether there is a colorable difference between the newly accused devices and the previously adjudicated infringing devices.

*“Good Faith”*

As for “good faith” as a defense to contempt, despite EchoStar’s assertion that it employed 15 engineers for 8,000 hours to redesign software and obtained a non-infringement opinion from a reputable law firm, the court concluded that “a defendant’s diligence and good faith efforts are not a defense to contempt.” However, the court noted that diligence and good faith efforts may be a factor in mitigating any penalties imposed by the district court.

*“Colorable Differences”*

On the issue of “colorable differences” between the modified DVRs and those found to infringe, the majority concluded that this is a fact issue to be determined on remand. The dissent, on the other hand, insisted that replacement of the sole feature that had been accused (in the original infringement action) of satisfying a limitation with a substantially different feature not known in the prior art *necessarily* results in devices that are more than colorably different. Thus, the dissent concludes that a remand on this issue is not necessary.

*“Vagueness”*

On the issue of vagueness as a defense to contempt, the majority held that vagueness does not operate as a defense to contempt for violation of an injunction, such as the disablement provision. According to the majority, EchoStar could not violate the injunction and later object to a finding of contempt because it had opportunities to present vagueness on appeal or through a motion to the district court to clarify or modify the injunction. The majority also disagreed with EchoStar's assertions of vagueness, concluding that the "most natural reading" demanded that the term "Infringing Products" extended to particular models, even in instances where the infringing features are eliminated from those models, because those models are collectively referred to as "Infringing Products" in the injunction. The dissent vigorously criticizes this holding, noting that extension of the term "Infringing Products" to non-infringing devices is contrary to the use of the term elsewhere in the injunction, and to the logic used by the district court. Finally, the dissent noted that interpretation proposed by the majority is contrary to policy favoring design-arounds. The dissent also attacked the majority's position that vagueness does not operate as a defense to contempt.

#### *"Overbreadth"*

On the issue of overbreadth and EchoStar's argument that an injunction in a patent infringement suit cannot prohibit non-infringing design-arounds, the majority held that EchoStar's failure to raise the issue on direct appeal prevents EchoStar from using overbreadth as a defense to contempt. The dissent questions whether the district court has the authority to issue an injunction barring design-arounds, noting that without an explicit indication of such intent, "no reasonable attorney would read the disablement provision as barring design-arounds because such an injunction would likely exceed the district court's authority."

EchoStar intends to seek review by the Supreme Court of the United States.

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