

## Parties Facing Permanent Injunctions Resulting from Patent Infringement Litigation Must Take Special Precautions in Redesigning Products to Avoid a Finding of Contempt

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A patent owner who successfully asserts a patent can often obtain a permanent injunction against the infringing party to prevent the continued infringement of its patent rights. Through an injunction, the court may order the party to stop making, using, or selling the products that were found to be infringing or direct the party to modify those products in a specific manner. A violation of the injunction can have severe consequences, including an award of sanctions, even when a party did not intend to violate the injunction. In a recent decision, *TiVo Inc. v. EchoStar Corp.*,<sup>1</sup> No. 2009-1374 (Fed. Cir. Apr. 20, 2011), the Federal Circuit affirmed a nearly \$90 million award of such sanctions against Echostar.

In *TiVo*, the Federal Circuit overruled the prevailing standard for determining when a contempt proceeding on patent infringement is proper and clarified what a patent owner must prove for a finding of contempt. The Court also explained when the infringing party must assert any claims that the injunction is vague or overly broad. The *TiVo* decision is instructive for patent owners and for parties facing an injunction.

### The *TiVo* Decision

TiVo Inc. ("TiVo") owns U.S. Patent No. 6,233,389, entitled "Multimedia Time Warping System," which allows television users to simultaneously record and play television broadcasts using a digital video recorder ("DVR"). In 2004, TiVo successfully brought a patent infringement suit against EchoStar, and the district court awarded a permanent injunction. The injunction required EchoStar (1) to stop making, using, offering to sell, and selling the satellite television receivers that the jury had found infringing ("the infringement provision") and (2) to disable the DVR functionality in the infringing receivers, whether already placed with customers or not ("the disablement provision"). EchoStar appealed to the Federal Circuit on claim construction and infringement issues, but not on the permanent injunction. In 2008, the Federal Circuit affirmed in part the district court's decision and noted that the injunction would take effect following its decision.

After the 2008 appeal, TiVo moved the district court to find EchoStar in contempt of the permanent injunction. EchoStar contended that it had redesigned the software in the infringing receivers, but the district court concluded that EchoStar was in contempt for violating the injunction. The court found that the redesigned receivers were not "more than colorably different" from the original receivers and that EchoStar did not disable the DVR functionality of the infringing receivers, as required under the injunction. The court awarded almost \$90 million in sanctions, and EchoStar again appealed to the Federal Circuit.

In an *en banc* decision by the full court, the Federal Circuit considered the finding of contempt for violations of the infringement and disablement provisions. With respect to the infringement provision, EchoStar first argued that the contempt ruling 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." The Federal Circuit rejected that argument, explaining that, while good faith may be considered when assessing penalties, good faith alone cannot save the infringer from a finding of contempt.

EchoStar next argued that the contempt proceeding in district court was improper under the prevailing standard, which required the district court to first determine whether there is "more than a colorable difference" between the accused product and the adjudged infringing product. Where the court found that to be the case, a new trial was necessary to determine infringement, and the court could not proceed with a contempt finding. The Federal Circuit overruled the the prevailing standard by eliminating the threshold "colorable difference" inquiry. Instead, the Court held that a detailed accusation from the injured party setting forth the alleged facts constituting contempt is all that is required for the district court to hold a contempt proceeding.

Recognizing that contempt is a "severe remedy," the Federal Circuit held that the patent owner must prove by clear and convincing evidence that the newly accused product is not more than "colorably different" from the product found to infringe and that the newly accused product actually infringes. According to the Federal Circuit, 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. Thus, where one or more of the elements previously found to infringe has been modified, the district court must determine whether the modification is significant. The significance of the differences between the two products depends on the nature of the products and the relevant prior art, and may be informed by expert testimony. The Federal Circuit stated that the primary question on contempt is 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."

The Federal Circuit vacated the district court's finding of contempt for violation of the infringement provision and remanded to the district court to determine whether there are more than colorable differences between EchoStar's infringing receivers and the redesigned receivers, which would entitle EchoStar to a new infringement proceeding.

Next the Federal Circuit considered contempt for violation of the disablement provision. EchoStar argued that the language of the disablement provision is unenforceable either because it is too vague to provide fair notice of what it actually prohibits or it is overly broad. The Federal Circuit rejected EchoStar's vagueness argument because EchoStar had bypassed opportunities to present its vagueness claim on appeal or through a motion to clarify the injunction. The Court concluded that EchoStar acted at its own peril by undertaking to make its own determination of what the injunction meant. The Federal Circuit also rejected EchoStar's overbreadth argument, similarly concluding that the time to appeal the scope of an injunction is when the injunction is handed down, not when a party is later found to be in contempt.

Because EchoStar did not disable the DVR functionality on any of the receivers that the jury found to be infringing and its vagueness and overbreadth arguments were unavailing, the Federal Circuit affirmed the district court's finding of contempt for violation of the

disablement provision. The Federal Circuit also affirmed the \$90 million award of sanctions because the district court stated that the award was made on alternative grounds, i.e., for violation of either of the two infringement and disablement provisions.

### **Strategy and Conclusion**

The *TiVo* case provides several insights for a party facing the threat of an injunction.

1. A lack of intent to violate an injunction is not a defense to a finding of contempt, and thus, the party must take extra precautions to avoid any violation when redesigning products that were found to infringe and when complying with any directives in the injunction.
2. A party may avoid contempt when redesigning products by ensuring that there are significant differences between those aspects of the accused products that were a basis for a finding of infringement and the modified features of the newly accused products.
3. To the extent a provision of the injunction is vague, the party should consider asserting a vagueness claim on appeal or through a motion to clarify the injunction before engaging in any conduct that may fall within the vague language. The party should also assert any overbreadth claims on appeal to avoid waiver of those claims.

### **Endnotes**

<sup>1</sup> The *TiVo* decision: <http://www.cafc.uscourts.gov/images/stories/opinions-orders/09-1374.pdf>.

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