Portfolio Media. Inc. | 860 Broadway, 6th Floor | New York, NY 10003 | www.law360.com
Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

Lawyers Hope TiVo Case Clarifies IP Contempt Rules

By **Ryan Davis**

Law360, New York (November 08, 2010) -- With oral arguments Tuesday in the en banc rehearing of a bitterly fought patent dispute between TiVo Inc. and EchoStar Corp. over digital video recording technology, lawyers say the U.S. Court of Appeals for the Federal Circuit has a chance to clarify the standards for using contempt proceedings — rather than a new trial — when a redesigned product is accused of infringement.

The case involves a fairly uncommon set of circumstances, as most cases settle long before contempt becomes an issue, but it raises important questions about redesigns and the law on contempt in patent cases, according to attorneys.

“It's not typical for any case to get this far. That's why there's so little Federal Circuit law on this,” said Steven J. Rizzi, a partner at Foley & Lardner LLP who is following the case. “There's a clear lack of guidance in the existing law.”

Among others, the Federal Trade Commission, the American Intellectual Property Law Association and the Intellectual Property Owners Association have filed amicus briefs in the case supporting neither party but asking that the court establish a contempt standard that is mindful of the importance of encouraging redesigns while at the same time ensuring that district courts are able to enforce injunctions.

After EchoStar's DVR system was found to have infringed a patent held by TiVo, the company redesigned the product. The district court later hit EchoStar with $200 million in contempt sanctions after TiVo successfully argued that a redesigned version of the DVR system still infringed the patent-in-suit.

The case centers on how extensively EchoStar redesigned its DVR software and in what type of proceeding the alleged infringement of the redesign should be evaluated.

TiVo maintains that the changes EchoStar made were trivial, so contempt proceedings were appropriate to determine whether the new product infringed. EchoStar, meanwhile, claims that the changes were so substantial that a new trial was needed.

Charles R. Macedo, a partner at Amster Rothstein & Ebenstein LLP, said that the two key questions attorneys wanted answered by the Federal Circuit were how much a redesigned product must be changed in order to warrant a new trial and whether a good faith effort to design around a patent found to infringe was enough to avoid a contempt finding, as EchoStar argues.

“Is acting in good faith enough to keep you out of contempt?” he said.

On that point, the issues raised by the en banc panel don't appear to address the law of contempt in general and how it relates to patent law, Macedo said.

“That is something people aren't asking about, and they should be,” he said.

Mitchell L. Stoltz of Constantine Cannon LLP said the case could have a significant impact on how much an injunction was worth.

If the court makes it easier for defendants to get a new trial on redesigned products, forcing the patent holder to litigate the issues once more, “the value of an injunction goes way down. It's just a piece of paper at some point,” Stoltz said.

Contrary to the wishes of some observers, he said, the Federal Circuit's ruling could be limited to the facts of the case and might not articulate an explicit rule on how to determine whether contempt proceedings or a new trial are appropriate.

“Many people are looking for a clearly stated rule, but it may be that there is no way to apply a rule in every situation,” Stoltz said.

Macedo said he expected that the judges on the en banc panel wouldn't all agree, possibly leading the case to be taken up by the U.S. Supreme Court regardless of the outcome.

The question of how to determine when changes to a redesigned product are so substantial as to warrant a new trial split a Federal Circuit panel in March.

Two judges sided with TiVo that the changes were minimal, while Judge Randall Rader argued that everything about the redesigned device was different except for the name of the company that made it.

The court has held until now that if there is “more than a colorable difference” between the redesigned product and the product found to infringe, a new trial is necessary, but if the difference is not substantial, the infringement of the redesigned product can be determined in a contempt proceeding.

In its en banc rehearing, the Federal Circuit will consider under what circumstances it is, in fact, appropriate to determine infringement of a redesigned device in a contempt proceeding and what standard should be used to make that ruling.

In its rehearing briefs, EchoStar argued that it made a herculean effort to implement its redesign and that by upholding the sanctions, the appeals court would send a message to other companies that implementing such a redesign would be pointless, because it may end up being held in contempt.

“Any such company would have to ask itself: 'If all the effort EchoStar expended, every precaution EchoStar took and everything EchoStar achieved were not enough to protect EchoStar from contempt, how exactly can we protect ourselves from contempt?'” the brief said. “If this court affirms the district court, the only truthful answer to that question will be, 'You can't.'”

An attorney for EchoStar said that the company had no comment on the pending case.

Matthew Zinn, senior vice president and general counsel for TiVo, told Law360 that EchoStar's argument vastly overstated the complexity of the company's redesign.

“EchoStar is dressing up a minor change to try to avoid an injunction,” Zinn said. “If EchoStar is able to get away with that, injunctions can never be enforced. They're creating a blueprint for determined infringers to avoid injunctions.”

In its brief, TiVo called EchoStar's claims “neither balanced nor factually well-founded.”

“In EchoStar’s world, unscrupulous infringers may exploit competitors’ inventions, ignore clear injunctions, avoid enforcement using extravagant claims about irrelevant or trivial changes, and force perpetual litigation over conduct that generates vast profits while inflicting irreparable harm on patentees seeking to market their own inventions in fast-moving technological fields,” the brief said.

Zinn said that it might not be possible for the court to articulate a clear rule on when contempt proceedings were appropriate in a patent case

“The question is, 'What is a substantial change?' I don't think there's a clearer way to do that,” he said. “The only way to do it would be narrow it to the point where it's meaningless, where any change means an injunction can't be enforced ... I don't think there's a clear, concise standard that doesn't take away the discretion of the judge.”

In its amicus brief, the FTC expressed a hope shared by other amici that the Federal Circuit would strike a delicate balance and adopt a clear contempt standard that wouldn't chill pro-competitive behavior.

If summary contempt proceedings and sanctions are too easy to get, the commission said, that could stifle competition and dampen incentives for follow-on innovation. On the other hand, enforceable injunctions can be an important prerequisite to innovation, it said.

“In filing this amicus brief, the commission seeks to ensure that any ruling in this case protects the 'complementary' goals that Congress established in the patent and antitrust laws — specifically, to 'promote innovation and competition,'” the FTC said.

Morgan Chu, Joseph Lipner, Andrei Iancu and Perry Goldberg of Irell & Manella LLP and Seth P. Waxman, Edward C. DuMont, Daniel S. Volchok and Thomas G. Saunders of WilmerHale represent TiVo.

Donald R. Dunner, Don O. Burley and Erik R. Puknys of Finnegan Henderson Farabow Garrett & Dunner LLP; Rachel Krevans, Jason A. Crotty, Scott F. Llewellyn and Deanne E. Maynard of Morrison & Foerster LLP; and E. Joshua Rosenkranz, Joseph Evall and Alex V. Chachkes of Orrick Herrington & Sutcliffe LLP represent EchoStar.

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