

Federal Circuit Revamps the Law on Contempt of an Injunction Prohibiting Patent Infringement



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An en banc panel of the Federal Circuit (a national court which hears all patent appeals) revamped the law on a motion for contempt of a permanent injunction which enjoins patent infringement in an April 20, 2011 decision in *TiVo Inc. v. EchoStar Corp.*, ___ F.3d ___, 98 U.S.P.Q. 1413. After a defendant loses a patent infringement action and is permanently enjoined from selling a product, the defendant has three choices; namely, (i) drop out of the market, (ii) negotiate a license with plaintiff or (iii) design around the patent which defendant was adjudged to have infringed. If a product is profitable, dropping out of the market is an unsatisfying choice for defendant. The negotiation of a license with Plaintiff is dependent on plaintiff's willingness to license and to do so at a reasonable price. According, Defendants often choose to stay in the market with a design-around.

The *TiVo* decision concerns the situation where a defendant has elected to design around and plaintiff contends the design around is infringing. The en banc panel laid down the following black letter

rules which are not controversial: (1) overruled is a two part test that began with an inquiry on whether it was appropriate to proceed with a contempt motion; (2) now, all that is required to initiate contempt is a detailed accusation by the injured party of facts constituting contempt and the district has broad discretion whether to proceed forward (3) the criteria for adjudicating a violation is that (i) the newly accused product is NOT more than colorably different from a product previously found to infringe and (ii) the newly accused product meets each of the limitations of a patent claim and (4) good faith (e.g., receipt of advise of counsel) is not a defense to civil contempt.

The majority of the en banc panel further laid down the following black letter rules which either break new ground and/or are startling: (5) vagueness and over breadth only operate as a defense where a named defendant previously pursued opportunities for modification, clarification or construction of the injunction order and (6) an injunction order that is not challenged for over breadth can bar a functionality, regardless of whether a modified device infringes the patent. Judges Dyk, Rader, Gajarsa, Linn and Prost wrote a cogent dissent to the majority upholding an injunction order extending to a non-infringing article having a functionality, as well as to the rejection of the defense of vagueness and over breadth.

The fact pattern of the *TiVo* is as follows. *TiVo* is the holder of US Patent 6,233,389 which claims a digital video recorder (DVR) process whereby a television viewer can simultaneously record and in a time-shift manner, play a television broadcast. *EchoStar* is in the business of satellite television transmission and places receivers with customers. *TiVo* sued *EchoStar* for infringement of its patent and a jury found eight receiver models by *EchoStar* to be infringing. The district court issued a permanent injunction order having two parts. The first part of the order enjoined *EchoStar* from selling receivers

found to be infringing. The second part ordered *EchoStar* to disable the DVR functionality in existing receivers and in new placements. *EchoStar* did not appeal or otherwise contest the injunction order.

EchoStar employed 15 engineers who put in 8000 hours of labor over a year to develop redesigned software. Thereafter, *EchoStar* obtained an opinion of counsel that the redesigned software for DVR was non-infringing. At this point, *EchoStar* deployed its redesigned DVR process into the marketplace. *TiVo* moved the district court to find *EchoStar* in contempt of the injunction order. The district court held that *EchoStar* violated the first part of the order to stop selling infringing receivers. In addition, the district held that even if *EchoStar* had achieved a non-infringing design around, *EchoStar* was in contempt because, it failed to disable the DVR functionality completely.

The en banc panel of the Federal Circuit began by overruling as unworkable its prior precedent in *KSM Fastening Sys., Inc. v. H.A. Jones Co.*, 776 F.2d 1522 (Fed. Cir. 1985) (not to be confused with the US Supreme Court's landmark decision on obviousness in *KSR Int'l Co. v. Teleflex, Inc.*, 550 U.S. 398 (2007).) The *KSM* line of cases established a two step inquiry for a district court proceeding on a contempt motion. The first part was for the district court to determine whether it was appropriate to initiate contempt proceeding and the second part was for the district court to determine whether the accused product continued to infringe. Concomitantly, a defendant could challenge on appeal that it was inappropriate to initiate contempt and reverse a finding of violation, regardless of the merits of whether the accused product continued to infringe.

In its place, the Federal Circuit established that the initiation of a contempt proceeding "is left to the broad discretion of the trial court" to determine how to enforce its injunctive decrees. "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." While broad discretion does have its limits, "[a] llegations that contempt proceedings were improper in the first instance do not state a defense to contempt."

The new standard of adjudicating whether a contempt has occurred is referred to as the "More than Colorable Differences" test and is essentially a combination of

the two part test in the overruled *KSM* line of cases. As the name implies, under this test, a district first determines if the newly accused post-injunction product is NO more than colorably different from the product previously found to infringe. This assessment is conducted with “focus on those elements ... the patentee previously ... proved, satisfy specific limitations of the asserted claims.” In determining the significance of the differences the court “must” look to the relevant prior art to determine if the modification “merely employs or combines elements already known in the prior art in a manner that would have been obvious.” A nonobvious modification may result in a finding of more than a colorable difference; however, the law obviousness is not binding on contempt proceedings.

If the district court determines that there is more than colorable differences, a new trial is needed. If the district court determines that there is NO more than colorable differences, the district court then proceeds in summary fashion 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.” Good faith (e.g., receiving advise of counsel) is not a defense to civil contempt.

On the subject of the defense to contempt that an injunction order is vague and/or overbroad, the majority of the en banc panel focused on two US Supreme Court decisions to fashion a rule, over dissent, that vagueness and over breadth only operate as a defense where a named defendant previously pursued opportunities for modification, clarification or construction of the injunction order. The two US Supreme Court cases were non-patent cases and are *McComb v. Jacksonville Paper Co.*, 336 U.S. 187 (1949) and *Granny Goose Foods, Inc. v. Teamsters*, 415 U.S. 423 (1974). The majority of en banc panel opined that where a named party faced with an injunction perceives an ambiguity in the injunction, the named defendant cannot unilaterally decide to proceed in the face of the injunction and make an after-the-fact contention that the injunction order is unduly vague. The majority left open the defense where the injunction is sought to be enforced against non-parties or those who did not have adequate notice. The majority rejected the dissent’s position that if a named defendant can later propose an interpretation

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of the injunction that allows the conduct, contempt is improper.

The majority’s position does not seem problematic were the ambiguity or over breadth is appreciated at the time of entry of the permanent injunction order and clarification can be contemporaneously sought from the district court. What about the situation where the ambiguity is not appreciated until the midst of the design around process? Apparently, the majority is suggesting that during the design around process, motions be made to reopen a case to set aside, modify or clarify a permanent injunction order. Notwithstanding, no guidance is provided by the majority of what is expected of a party where the ambiguity or over breadth is not appreciated until defendant begins the design around process.

Startling as it may be, over dissent, the majority held that an injunction order that is not challenged for over breadth can bar a functionality, regardless of whether a modified device infringes the patent. In particular, the majority found enforceable the second part of the district court’s order which precluded (more precisely required disablement) of all DVR functionality in existing receivers and in new placements. Accordingly, the majority upheld about 90

million dollars in contempt sanctions arising out of EchoStar having downloaded its redesigned software unto receivers. In making this holding, the majority relied upon the aforementioned non-patent Supreme Court decisions.

In a very cogent dissent, Judge Dyk wrote that “designing new and possibly better or cheaper functional equivalents [of a competitor’s product] is the stuff of which competition is made.” He then went on to write “[t]here is indeed a serious question as to whether, in light of this strong policy, the district court would even have the authority to issue an injunction barring design-arounds. This court has repeatedly instructed that injunctions in the patent context must be limited to restraints designed to prevent further infringement. [string citations omitted].” While it does not seem that this point is likely to draw certiorari, perhaps, the US Supreme will reverse *per curiam* or in another case, *sub nom*.

The Federal Circuit has made its mark on contempt proceedings for violations of permanent injunctions in patent infringement cases. It is now to the bench and bar to learn these pronouncements. IPT