

2009-1374

**United States Court of Appeals
for the Federal Circuit**

TIVO INC.,

Plaintiff-Appellee,

v.

ECHOSTAR CORPORATION, ECHOSTAR DBS CORPORATION, ECHOSTAR
TECHNOLOGIES CORPORATION, ECHOSPHERE LIMITED LIABILITY COMPANY,
ECHOSTAR SATELLITE LLC, AND DISH NETWORK CORPORATION,

Defendants-Appellants.

*Appeal from the United States District Court for the Eastern District of
Texas in case no. 2:04-CV-01, Judge David Folsom.*

**BRIEF OF *AMICI CURIAE* DISTINGUISHED PROFESSORS OF LAW
AND ECONOMICS ON REHEARING *EN BANC* IN SUPPORT OF THE
APPELLEE, TIVO INC. IN FAVOR OF AFFIRMANCE**

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SEPTEMBER 17, 2010

TIVO v. ECHOSTAR, No. 2009-1374

CERTIFICATE OF INTEREST

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2. The name of the real party in interest (if the party named in the caption is not the real party in interest) represented by me is:

Not applicable

3. All parent companies and any publicly held companies that own 10 percent or more of the stock of the party or amicus curiae represented by me are:

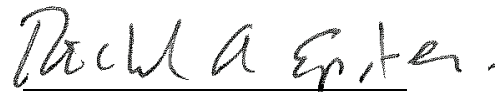
None

4. The names of all law firms and the partners or associates that appeared for the party or amicus now represented by me in the trial court or agency or are expected to appear in this court are:

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INTEREST OF *AMICI CURIAE*

The *amici curiae* submitting this brief are professors of law and economics who teach, conduct research, and publish in the areas of intellectual property and competition law and economics. *Amici* have no financial interest in any party to the case or in the outcome of the case. Neither party, nor any of either party's counsel, authored this brief in whole or in part. The brief's principal author, Professor Richard Epstein, has received a general grant from the International Center for Law and Economics ("ICLE") for academic writings without any restrictions as to its use. While TiVo Inc. ("TiVo") has been a contributor to ICLE, neither TiVo nor its outside counsel authored this brief in whole or in part. This brief solely represents the views of its signatories. *Amici* write on the basis of their interest in the optimal enforcement of patents. This brief is being filed by consent of the parties to this appeal, and pursuant to paragraph 6 of the Court's May 14, 2010 Order.

STATEMENT OF FACTS

Appellee TiVo Inc. (“TiVo”) holds Patent No. 6,233,389 (“the ’389 patent”) for a digital video recorder (“DVR”) which introduces a new technology that for the first time simultaneously performs many functions of immense value to consumers. Among these, TiVo’s technology stores for further use the signals it receives from either a cable or satellite transmitter and it plays back signals that it had previously stored. In March, 2006, a jury found that the defendants (collectively, “EchoStar”) willfully infringed TiVo’s patents with both their “50X products” and the “Broadcom Products,” for which the jury awarded TiVo close to \$74 million in damages. The District Court then granted TiVo’s motion for injunctive relief, which required EchoStar to disable its DVR functionality on all EchoStar cable boxes for which it had not paid lost profits. Thereafter EchoStar engaged in complex procedural maneuvers spanning several years, including an appeal to this Court which affirmed the District Court’s injunction but stayed its enforcement. During this time, EchoStar outfitted its cable boxes with a new software download that featured modest design changes, without first notifying the Court of its efforts. When its modified device eventually came to the Court’s attention, EchoStar claimed that its modified software fell outside of the four corners of the original injunction affirmed in this Court. TiVo then initiated in District Court the contempt proceedings now on appeal. The District Court

allowed both parties extensive discovery and held a three-day bench trial on the matter, in which the parties introduced documentary evidence and offered witness testimony subject to cross examination. After four months, the District Court issued its contempt order in June, 2009, which the Federal Circuit stayed in July, 2009. Thereafter, in March, 2010, a divided panel of the Federal Circuit denied EchoStar's claim for emergency relief. The matter was then rescheduled for an *en banc* hearing to ask whether the District Court followed correct procedures in issuing its contempt decree. *TiVo Inc. v. EchoStar Corp.*, 2010 WL 1948577 (May 14, 2010). To date, more than four years after the jury's finding of willful infringement, the injunction issued by the District Court remains unenforced.

The heart of this dispute involves EchoStar's purported effort to work-around TiVo's '389 patent. EchoStar's original product created an "index" of "start codes" that was found to infringe the TiVo patent. Its purported work-around replaced its start code mechanism with what a "brute force" method that estimated the location of stored data by reference to average frame rate statistics collected during playback. The District Court held that the elimination of start code detection and indexing did not take the new device out of the reach of TiVo's patent, holding that this change did not affect the two software claims that remain at issue in this appeal. The original claims contained the word "parsing," which

the District Court construed to mean “analyzing” data from outside sources, and which the modified EchoStar device continued to do.

EchoStar’s second failed work-around involved the removal of a so-called “record buffer” found in its original device. EchoStar’s “transport buffer” had contained ten constituent cells, each of which stored information separately until it could be transferred to the hard drive. The record buffer served as an intermediary through which information from one transport buffer cell at a time was transferred to the hard drive. EchoStar’s removal of the record buffer allowed information to travel directly from the transport buffer to the hard drive, but did not change the operation of the transport buffers. The District Court held that this change from eleven buffers to ten was insignificant and that the modified DVRs were still covered by the ‘389 patent.” This *en banc* proceeding examines the soundness of the procedures that the District Court used to examine EchoStar’s efforts to design around the injunction.

SUMMARY OF THE ARGUMENT

EchoStar’s appeal presents a stark choice on the proper method for dealing with a repeat patent infringer against whom the District Court has issued an initial injunction followed by a contempt decree, which between them have yet to provide TiVo with an ounce of effective relief against EchoStar’s unlawful behavior. EchoStar takes the position that the entire convoluted six-year history of this

dispute should be ignored in passing on the validity of its purported present work-around of TiVo's '389 patent. In so doing, its apparent objective is to win a war of attrition against TiVo. The first part of that strategy is to use its current modified DVR for as long as it can tie up TiVo through tactics of litigation delay that allow it to reap all the collateral gains from patent infringement. Once stopped with the first work-around, it may well repeat the same cycle of delay a second time.

For EchoStar, this approach it is a no-lose strategy. EchoStar wins big if it can persuade a court that its work-around comes close to, but does not cross, the infringement line. EchoStar also wins if it loses a new infringement suit so long as it needs only pay damages that amount to a small fraction of the economic gains it derives from following its unlawful strategy. Then it can start the cycle anew with a second work-around, and, if need be, a third. Unless prompt and decisive measures are taken, EchoStar will profit handsomely from its own wrongdoing.

The contempt proceeding, which held for TiVo on all relevant issues, is the only way to prevent a succession of opportunistic maneuvers that would otherwise turn TiVo's unassailable property rights into a working asset in EchoStar's business portfolio. With each infringing act, EchoStar is able to expand its customer base, only to plead that an injunction will impose enormous hardship by forcing it to abandon business it should not have acquired in the first place. EchoStar's animating business plan is thus "the greater the wrong, the greater the

financial success.” EchoStar’s strategy of obstinate delay, if successful, will serve as an inspiration for another generation of entrepreneurs who see nothing wrong in making their fortune on the backs of others whose imagination and persistence have produced major technological advances.

The sad fact is that more than four years have already elapsed since TiVo won its original patent infringement suit. EchoStar asks to continue the charade by insisting on yet another full dress trial to bring matters to a close—at least before the inevitable appeal and next dubious work-around. That position should be emphatically rejected. The District Court’s abbreviated proceedings must not be examined in a void. Instead, they should be evaluated in light of the previous proceedings that first construed key elements of TiVo’s ‘389 patent and then pronounced EchoStar’s original device in violation of those claims. The record shows conclusively that EchoStar did not engage in any sustained effort to develop a new and independent product from scratch; instead it simply tweaked its earlier infringing device in the hope that its modifications did not infringe.

In its effort to burnish its image, EchoStar claims that it acted in good faith and with reasonable care. But the ultimate issue in this case is not whether EchoStar can make out its self-serving claims of bona fides. Instead it is whether its decision to tweak a device that it knows to infringe permits a reasonable determination that a firm that consciously seeks to get as close to the infringement

line as possible is, in fact, likely to have crossed over that line. That inference could not be drawn if EchoStar had started from scratch. By the same token, it cannot be avoided given the alternative path that EchoStar chose to pursue. The District Court knew well from EchoStar's calculated design strategy that there was a major risk this modification violated the TiVo patent. It was therefore fully justified in using an expedited proceeding, without the formalities, length, and expense of a full trial, to reach the conclusion that the modified device in fact infringed the '389 patent as construed at an earlier stage in the same case.

The District Court's procedural approach meets all the requirements of the Federal Circuit's *KSM* decision on how a sound procedural system should respond to uncertainty. In cases written on a blank slate, it is appropriate to put the burden of proof on the plaintiff. But when the defendant has willfully infringed with one device, and seeks to come as close to the line as possible with the second, the likelihood that the modified device infringes becomes far greater. The appropriate judicial strategy to minimize the risk of error thus calls for expedited proceedings at the sound discretion of the trial judge on his initial determination of substantial similarity between the original and modified device. In that contempt proceeding, the defendant is protected by a burden of proof that requires the patentee to make out its claim of infringement by clear and convincing evidence. TiVo met this burden. In addition, the remedy in question should be proportionate to the wrong

that is so found, which in this instance means that the full set of sanctions could be deployed, including enhanced damages and an extension of injunctive relief against the willful infringer even after the expiration of the patent.

ARGUMENT

I. THE DISTRICT COURT FOLLOWED TO THE LETTER THE PROCEDURES SET OUT IN *KSM* ON ISSUING A CONTEMPT CITATION AGAINST ECHOSTAR FORBIDDING ITS USE OF ITS MODIFIED DEVICE.

This brief addresses two questions of great importance to the proper administration of the patent law. The first concerns the importance of injunctive relief in patent cases in order to preserve the market for voluntary marketing. *See* Richard A. Epstein, *The Disintegration of Intellectual Property? A Classical Liberal Response to a Premature Obituary*, 62 *Stan. L. Rev.* 455, 485-96 (2010). The second concerns the necessity for abbreviated procedural devices to cut short cases where the weakness of the plaintiff's position does not merit a full length trial. *See* Richard A. Epstein, *Bell Atlantic v. Twombly: How Motions to Dismiss Become (Disguised) Summary Judgments*, 25 *Wash. U. J.L. & Pol'y* 61 (2007).

These two issues are conjoined in the instant case. Its central question is not whether the District Court rightly decided that EchoStar's purported work-around of TiVo's '389 patent was still infringing. Rather it is whether the long procedural history of the case justified the use of the abbreviated, but by no means summary, three-day evidentiary hearing and three-month deliberative procedures that the

District Court conducted before imposing sanctions against EchoStar. The soundness of that choice for expedited procedures depends on the relative error costs of moving too rapidly versus the costs of moving too slow.

On this question, context is critical. In any initial set of proceedings, it is rightly difficult for any aggrieved plaintiff to obtain a preliminary injunction before a full hearing on the merits. The rapid, pro-plaintiff procedural system creates the risk that plaintiffs with weak cases will take advantage of a lax regime on injunctions in order to leverage a favorable settlement from a non-infringing defendant. To guard against this risk, the Supreme Court in *Winter v. Natural Res. Def. Council, Inc.*, 129 S. Ct. 365, 374-75 (2008) reaffirmed the traditional rule that it was improper to issue a preliminary injunction just because there was a “possibility” that the defendant’s conduct could lead to some threatened harm that would later justify the imposition of some sanctions. *Id.* at 375. Instead the Court held that the applicable standard required more: “A plaintiff seeking a preliminary injunction must establish that he is likely to succeed on the merits, that he is likely to suffer irreparable harm in the absence of preliminary relief, that the balance of equities tips in his favor, and that an injunction is in the public interest.” *Id.* at 374.

The balance of equities to which the Supreme Court referred in *Winter* tips radically in the opposite direction, however, when it is incontrovertible that the defendant has already willfully infringed and received an injunction imposed to

protect the plaintiff's rights. *See, for example, Triad Sys. Corp. v. Se. Exp. Co.*, 64 F.3d 1330, 1338 (9th Cir. 1995). When that same defendant now opportunistically seeks to avoid further sanctions by coming as close to the line as it possibly can, prompt remedial action is needed. At this point, the proper way to minimize error is to *update* the initial presumption in favor of the defendant in light of uncontroverted evidence that the defendant has misbehaved in the past and is now likely to misbehave a second time if not promptly checked.

The case for using contempt procedures is even stronger if, as here, the defendant knows from the outset that it can be left better off even if it does infringe, so long as it can delay or even avoid injunctive relief.

The close connection between the prior litigation and the current dispute necessarily shifts the prior estimation of the error rates. Now it is far more likely that the plaintiff is correct and the defendant incorrect, so that the error costs of additional delay are far greater than those that arise from taking prompt action.

At this point, the legal system appropriately makes two adjustments to reflect the prior history. First, it conducts a shorter trial on the merits in order to spare the plaintiff (to say nothing of the court and even the defendant) of a time-consuming process on a matter with many key elements already decided in the plaintiff's favor. Second, by way of protection for the plaintiff, the legal system

ratchets up the sanctions once it finds infringement in order to neutralize the defendant's contumacy.

In this case only the first of these issues is at stake. The governing rule for the Federal Circuit is contained in these passages from this Court's *KSM* decision:

Having enjoined the infringer, a patent owner who is confronted with another possible infringement by that party in the form of a modified device will very likely seek to invoke the power of the court to punish the adjudged infringer for contempt in violating the court's injunctive order. While a patent owner, in such circumstances, could institute a separate suit to enjoin the modified device, the advantages of proceeding on a motion to hold his adversary in contempt are substantial. The adjudged infringer is already under the jurisdiction of the court and may be summoned to appear to respond on the merits, the contempt motion being merely part of the original action. Contempt proceedings are generally summary in nature and may be decided by the court on affidavits and exhibits without the formalities of a full trial, although the movant bears the heavy burden of proving violation by clear and convincing evidence.

KSM Fastening Sys., Inc. v. H.A. Jones Co., 776 F.2d 1522, 1524 (Fed. Cir. 1985)

(citations omitted). Further:

An enjoined party is entitled to design around the claims of a patent without the threat of contempt proceedings with respect to every modified device although he bears the risk that the enjoining court may find changes to be too insubstantial to avoid contempt.

Conversely, where an injunction is written narrowly against a particular infringing device, contempt may, nevertheless, be found on the basis of a modified infringing device. An enjoined party under a narrow decree will not be permitted to escape on a purely "in rem" theory that only a particular device is prohibited, where it is evident that the modifications do not avoid infringement and were made for the purpose of evasion of the court's order. Again, the standard is whether the differences between the two devices are merely colorable.

Id. at 1526 (citations omitted).

These passages shape the analysis of the instant litigation. First, the aggrieved party will indeed prefer to invoke the power of the court that already controls the case rather than begin a new action. The continued action is not subject to a variety of procedural hurdles that intrude when a new suit is brought with no presumption of validity in its favor. In addition, the contempt procedure cuts down on delay and cost by getting the case quickly before a judge who knows the record intimately, and has the available tools to respond promptly to the peril. This speedy procedure serves not only the plaintiff's interest, but the social interest as well, given that the disregard of patents undermines the patent law's core mission to encourage innovation by the creation and protection of enforceable property rights that secure an adequate return to the inventor.

In this case, moreover, the contempt procedures were especially appropriate because there is ample evidence that EchoStar is indeed seeking to "escape" this narrowly written injunction by making small modifications in order to skirt the literal language of the decree. Its new devices are best described as a knock-off and simplification of a device that had already been found to infringe the plaintiff's patent. EchoStar's effort has been to put just enough separation between its new and old devices to force TiVo to gear up for yet another round of expensive litigation beginning at square one.

There is no magic test to decide just what changes are too substantial to allow for the use of the contempt proceeding; questions of degree never permit dogmatic answers. But in this case the District Court applied the right standard, and its decision must stand in the absence of an abuse of discretion. *See TiVo, Inc. v. EchoStar Commc'ns Corp.*, 516 F.3d 1290, 1311 (Fed. Cir. 2008). *See also Additive Controls & Measurement Sys., Inc. v. Flowdata, Inc.*, 154 F.3d 1345, 1349 (Fed. Cir. 1998) (“We review the district court’s decision to proceed via a contempt hearing for abuse of discretion.”). The benefit of the doubt surely has to be given to the District Court judge’s decision to initiate contempt proceedings when the defendant tries to build its modified device on the flawed foundations of the original infringing device. Nor is there any reason to think that there was any abuse of the contempt power given that the abbreviated, but meticulous, procedures allowed the defendant full opportunity to use experts and other evidence to defend its modified design. The defendant also received, under *KSM*, too much protection from a high standard of proof for it to plead that it is the victim of some kangaroo court.

The instant case is, moreover, easily distinguishable from *KSM* on its facts, where this Court found a contempt proceeding to be inappropriate. *See KSM*, 776 F.2d at 1532. Unlike the present case, the plaintiff in *KSM* had shown the requisite similarity only between the defendant’s original and modified products. *Id.* at

1524. But that initial showing is not sufficient to obtain a contempt citation, even though it is sufficient to support a court's decision to proceed with assessing the sufficiency of a defendant's work-around through a contempt proceeding. Rather, proof that the modified device infringed the plaintiff's patent is required as well. Accordingly, the plaintiff's demand for a contempt proceeding rightly foundered "because of the refusal of the district court to consider whether [the defendant's] devices infringed the claims of the [plaintiff's] '217 patent." *KSM*, 776 F.2d at 1524. At this point, the Federal Circuit in *KSM* pinpointed the shortfall in the District Court's substantive inquiry:

The difficulty is simply that the modified doctrine of equivalents [comparing the adjudged and modified devices] . . . does not assure a proper finding that the modified device infringes the claims. It may not properly be assumed, as does the . . . standard [adopted by the District Court], that, because the [modified] devices, in a sense, are "equivalents" to the enjoined . . . device, they are also equivalents of the patent claims.

Id. at 1528 (citations omitted).

[C]ontempt proceedings should be conducted and contempt *found* where an enjoined device and an accused device were "merely colorably different," and . . . in order to determine whether two devices are "merely colorably different," the accused device must be compared to the adjudged device under a "doctrine of equivalents[.]"

Id. at 1527 (emphasis added). In the instant case, however, the District Court followed the tests set out in *KSM* to the letter by making findings on *both* similarity and infringement. That conscientious application of the correct standard should be allowed to stand unless the final judgment was clearly erroneous, which it was not.

II. NONE OF ECHOSTAR'S OBJECTIONS TO THE DISTRICT COURT'S PROCEDURE ARE VALID.

A. *An Expedited Procedure Does Not Require the District Court Judge to Establish the Similarity Between the Original and Modified Device By Clear and Convincing Evidence.*

In an effort to undermine the conclusion below, EchoStar insists that the District Court must establish the similarity between the original and modified product by clear and convincing evidence. But there is nothing in *KSM* that supports the imposition of this needless obstacle to speedy remedial action. The District Court properly held that *KSM* only requires a minimal showing of similarity between original and modified products. *See TiVo Inc. v. Dish Network Corp.*, 640 F. Supp. 2d 853, 863 (E.D. Tex. 2009). That result is correct because this preliminary stage of the contempt proceeding has no binding consequences on the defendant. The *ultimate* issue in this case is not whether EchoStar's two devices were in fact similar; it is whether its modified DVR also infringes the basic '389 patent. But the *preliminary* issue needed to trigger proceeding with that assessment through a contempt hearing is whether the adjudged and accused devices are "colorably different."

In dealing with this issue, the District Court properly followed *KSM* by first making this "colorably different" inquiry. *TiVo Inc.*, 640 F. Supp. 2d at 861. That question of fact was correctly resolved by the District Court given that the defendant had designed this new patent simply by stripping out elements from its

former design in the hopes of escaping liability. That situation is a far cry from a dispute in which the defendant engineered a product design from scratch. The apparent similarity between EchoStar's original and modified product was in fact very close, which of course increases the odds that the modified product in fact infringed the TiVo patent. The District Court, moreover, properly treated the definition of key terms like "parsing" and "automatic flow control" as being settled in the earlier stages of the litigation, so that its only task was to ask whether EchoStar's purportedly-redesigned device counted as second violation of the TiVo '389 patent. *Id.* at 871. The translation from the one case to the other was relatively complete. In light of this, the defendant's insistence on a new trial would create a terrible obstacle to contempt proceedings, because of its impossibly high threshold to any continued supervisory action. Let that rule control, and the astute defendant can unleash a parade of modified devices, knowing that it could keep first one and then the next on the market by resisting new law suits, perhaps for the entire life of the plaintiff's patent.

The situation in this case, moreover, is markedly different from the Supreme Court's early decision in *California Artificial Stone Paving Co. v. Molitor*, 113 U.S. 609, 618 (1885). In that case, the original plaintiff pioneered a technique for laying concrete in discrete blocks separated by either tar paper or sand in ways that protected one block from cracking and breaking even if another block were

damaged. The defendant then developed a new technique with that same purpose that avoided the separation of the block, but used small indentations in one long slab in the hopes of achieving the same result. Unlike the present situation, the defendant's new device lacked an essential element—separation—of the older patent. To make matters more complex, the entire case was governed by an 1802 statute that permitted expedited decisions only on pure questions of law, and not on mixed questions of law and fact. *Id.* at 615-16 .

Within that framework, the Supreme Court held that the summary proceedings were not appropriate. Justice Bradley explained: “By the final decree in the case, made in 1881, the court decided that the pavements which the defendant had been theretofore making did infringe the patent. How those pavements were constructed we are not informed; and therefore we do not know what was the precise construction given by the court to the patent.” *Id.* at 617-18. Owing to a division of opinion below, the Court held that the plaintiff had to bring a separate action. The Court concluded its opinion by noting: “Process of contempt is a severe remedy, and should not be resorted to where there is fair ground of doubt as to the wrongfulness of the defendant's conduct.” *Id.* at 618. Justice Bradley's concluding statement was addressed to the state of the evidence at as it reached the Court; it did not rule out the use of contempt proceedings in appropriate cases. The case's reference to a “fair ground of doubt” arose because

of the division of opinion between the two judges who heard the evidence in separate proceedings. *Id.* There is no similar indefiniteness in the record in this case.

In light of *California Artificial Stone*, the District Court was therefore correct to say that the heightened burden only came on the merits so that it lay within the “discretion” of the trial court to initiate the inquiry in the first place. (Dist. Ct. Op. 11-13). The protection for the defendant comes in the substantive standard on infringement that has to be met. In this instance, the District Court was required under *KSM* to examine the mixed questions of fact and law raised by the asserted infringement even after the question of claim construction had been resolved. In reviewing the record there could not have been “a fair ground of doubt” as to the state of the record below in light of the District Court’s finding that the infringement by the modified device was supported by clear and convincing evidence.

B. *TiVo’s Proof of Infringement in the Original Action Does Not Bar the Plaintiff From Making a Different, But Needed, Showing of Infringement By EchoStar’s Modified Device*

The distinctive context of this litigation also undermines EchoStar’s assertion that TiVo is somehow estopped from proving EchoStar’s infringement because of TiVo’s earlier positions in the litigation. The prosecution of that first claim depended on the intersection of the two distinct tasks that must be discharged

in all infringement actions. The first involves the proper construction of the claims in the plaintiff's patent. The second involves an examination of the defendant's device to see whether it infringes the plaintiff's patent.

The question of claim construction is a question of law under this Court's decision in *Markman v. Westview Instruments, Inc.*, 52 F.3d 967 (Fed. Cir. 1995), *aff'd*, 517 U.S. 370 (1996). The second question is a matter of fact that necessarily depends on the design of the challenged device. So long as there is any difference between the original and the modified devices, the proof of infringement will necessarily differ to take into account the underlying patterns. The removal, for example, of the "record buffer" from the original EchoStar device makes it irrelevant for TiVo to show that this component infringes its patent. But it hardly follows that TiVo cannot make out infringement by showing that the substitute system without the "record buffer" infringes on the claim.

As a general rule, the doctrine of estoppel is designed to make sure that a plaintiff does not take inconsistent positions on the identical questions of fact in a given law suit or in related litigation. *See TiVo Inc. v. Dish Network Corp.*, 640 F. Supp. 2d 853, 867 (E.D. Tex. 2009) (citing *Transclean Corp. v. Jiffy Lube Int'l, Inc.*, 474 F.3d 1298, 1307 (Fed. Cir. 2007)). The clear purpose of this doctrine is to prevent opportunistic behavior by any party who wants to switch positions for short term advantage. To apply estoppel doctrine would make it impossible for

TiVo to prove up the infringement in the second stage of the contempt proceeding no matter how compelling its case. There is no inconsistency in using different proofs in different stages of the case which present different factual issues. So long as the defendant is able to make multiple modifications to its design, the plaintiff should be allowed to prove infringement in the appropriate way. The doctrine of estoppel therefore applies only if the plaintiff seeks to alter the claim construction at different stages of the case. It has no application in a case where both TiVo and the District Court have relied on consistent claim construction throughout these lengthy proceedings.

C. *EchoStar's "Good Faith" Efforts To Circumvent TiVo's '389 Patent Do Not Insulate It From Contempt Proceeding.*

EchoStar is also incorrect when it insists that its alleged good faith efforts to avoid TiVo's '389 patent are sufficient to derail the District Court's contempt citation. It is a matter of hornbook law that any defendant who infringes a patent is liable for damages even if it has acted in good faith. This is also true where a defendant violates an injunction: good faith will not insulate the conduct from enforcement. The sole question is whether the device crossed the line, not whether the defendant took all of the steps in its power to see that it did not. What is true with cases of literal infringement also holds for cases of infringement that additionally rely on the doctrine of equivalents. The Supreme Court made this parity clear when it wrote:

If the essential predicate of the doctrine of equivalents is the notion of identity between a patented invention and its equivalent, there is no basis for treating an infringing equivalent any differently from a device that infringes the express terms of the patent. Application of the doctrine of equivalents, therefore, is akin to determining literal infringement, and neither requires proof of intent.

Warner-Jenkinson Co., Inc. v. Hilton Davis Chem. Co., 520 U.S. 17, 35 (1997).

Given the objective tests for infringement, the only question is whether there is in the discretion of the District Court a sufficient closeness between the two designs that triggers the inquiry into infringement within the framework of a contempt proceeding. In those cases where there is a hard boundary line on the original patent claim, a defendant can come as close to that line as it chooses and not be guilty of infringement. Thus in *Warner-Jenkinson*, one question was whether the Hilton Davis ultrafiltration patent, which contained a claim to operate between 6.0 pH and 9.0 pH, could block Warner-Jenkinson's similar device that operated at pH 5.0. The Supreme Court held that if Hilton Davis had selected its lower bound of 6.0 pH because it wished to avoid invalidation by prior art or to make good on its claims of enablement, then the boundary line should be treated as fixed. *Id.* at 32-33. Any other rule would allow Hilton Davis to first get a patent by steering clear of dangerous territory, only to reclaim that lost ground by using the doctrine of equivalents thereafter. In these contexts, explicit disclaimer thus rightly allows any potential infringer to come as close to that line as possible.

Most patent claims, however, do not have that hard-edged quality. In those cases, as here, the danger of opportunism shifts from the patentee to the putative infringer who is in a position to take advantage of the imperfections of language that make it impossible to offer precise descriptions of all claim elements. “The language in the patent claims may not capture every nuance of the invention or describe with complete precision the range of its novelty. If patents were always interpreted by their literal terms, their value would be greatly diminished.” *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 731 (2002). In effect, limiting patent protection to literal infringement claims leaves a patentee helpless against any interloper who copies key components while altering minor ones. As was said in *Winans v. Denmead*, 56 U.S. 330, 343 (1853), “[t]he exclusive right to the thing patented is not secured, if the public are at liberty to make substantial copies of it, varying its form or proportions.” The Court’s use of the term “copies” is surely relevant, because the doctrine of equivalents is routinely in play when the defendant has tweaked the plaintiff’s patented device in order to escape the boundaries of the original claim.

Within the context of this contempt proceeding, the same pall of suspicion should be cast over the defendant who copies and tweaks his own prior design in order to escape the gravitational pull of the plaintiff’s patent. The copyist’s claim of good faith is easy to allege but difficult to deny. It is for good reason that once

the observable imitation is established, the defendant's mental state is irrelevant to the doctrine of equivalents, which depends only on what the defendant did. The defendant who protests that it did not intend to infringe a porous claim boundary thus increases the likelihood of that infringement. The District Court is entitled to hold that EchoStar's effort to modify its original infringing design is sufficient to trigger an investigation which then can find either literal infringement or infringement under the doctrine of equivalents.

D. *EchoStar Should Not Be Allowed To Avoid Injunctive Relief By Pleading Its Hardship or That of Its Customers.*

Throughout this emergency appeal, EchoStar has insisted that the contempt proceedings would inflict serious hardship on the firm, causing it to lose a substantial fraction of its present and future customer base, which translates into revenue losses of close to \$90 million per month. (Dist. Ct. Op. 6). This large number is a function of EchoStar's overall business, in which it uses the DVR as a window through which it can sell and deliver content to its many subscribers. So long as EchoStar can lever its content business on TiVo's business technology, it is able to secure handsome profits for itself.

This plea for further delay in the administration of injunctive relief should fall on deaf ears once it is determined that this new modified design infringes the '389 patent. For starters, EchoStar neglects to mention that it built up its customer base through the *undisputed* misappropriation of TiVo's cutting edge technology.

Why let it claim hardship from the prospect of losing business it never earned in the first place? In effect EchoStar's argument is that once it has built up a large business on the back of someone else's patents, it should be allowed to reap those profits for the indefinite future. The size of its own illicit gains becomes the tool it deftly uses to extend its illicit activity indefinitely. This approach creates the perverse outcome that the longer the defendant is able to wiggle away from legal sanctions, the stronger is its case to continue on its unlawful path. EchoStar's claims of large future losses prove only one thing: that its large monthly losses make the damages awarded for TiVo in 2006 look puny relative to the continuing harm from EchoStar's misbehavior.

Second, it is inappropriate for EchoStar to escape injunctive relief when it has other ways to continue its overall communications business. If the stakes are as large as it claims, it could at long last acquire a license from TiVo that reflects the economic value of the TiVo patent. TiVo does indeed license its technology to a number of firms, including DirecTV, EchoStar's close competitor and former merger candidate. *See* TiVo Inc., Annual Report (Form 10-K), at 3 (March 31, 2010), *available at* <http://investor.tivo.com/phoenix.zhtml?c=106292&p=irol-sec> ("Additionally, we have distribution agreements with Comcast, Cox, and satellite television providers, including DIRECTV, as well as international cable and broadcasting companies such as Seven Networks in Australia and New Zealand

and Virgin Media in the United Kingdom[.]”). Alternatively, EchoStar can develop its own independent technology, which is not a knock-off of the TiVo patents, which it could then try to license to other firms that do not use TiVo technology. If those routes fail, EchoStar can license or purchase similar patent technology from third parties. What EchoStar cannot do, however, is claim the inequity of losing business for refusing to pay for intellectual property it does not own.

Third, EchoStar’s argument pays scant weight to the dislocations its continued patent violations have had, and are continuing to have, on TiVo, whose customer base has shrunk in comparison with EchoStar’s. The serious difficulty here is that so long as EchoStar is able to dodge injunctive relief, TiVo’s potential customers have been reluctant to ink deals along with established players like Comcast or DirecTV for technology that may not be protected from EchoStar’s infringement. *See Paul Bond, TiVo has a license to license*, *The Hollywood Reporter*, Jan. 7, 2009, http://www.hollywoodreporter.com/hr/content_display/television/news/e3i41ac0111ebdf301070ed639e62ba4777. TiVo’s inability to prove up these losses with precision could well deny it damages for these collateral economic losses. It would be most ironic that TiVo could not get relief here when it should be able to enjoin EchoStar, as a direct competitor, from using its technology as a first-time

infringer under the somewhat relaxed standards of *eBay, Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006). EchoStar's position is even weaker given the serial nature of its wrongs. The inadequacy of damages becomes only more pronounced if the entire world is a direct witness to the impotence of the courts to issue much-needed injunctive relief. Here, justice delayed is indeed justice denied.

E. *EchoStar Should Be Subject to Severe Sanction So That Its Wrongful Conduct Does Not Allow It to Force a Compulsory License of TiVo.*

The essence of intellectual property is to allow a firm to exclude those who do not meet its price. In a few specialized situations (e.g., the division of a corporation) compulsory licenses are allowed to facilitate business transactions, but in most instances courts are alert to the real risk of a party circumventing the property rules by first infringing a patent and then daring its owner to sue for damages, which are difficult to compute and often difficult to collect. In this particular instance, EchoStar has already played that game with two designs of its own DVR. The question of ultimate relief only arises because all the findings of patent infringement are valid. The challenge therefore is to develop a remedial regime that discourages any putative infringer from following the path that EchoStar has blazed.

In order to make sure that this does not happen, some usual measures of patent damages could easily prove inadequate. An effort to compute some kind of a reasonably royalty focuses far too narrowly on the particulars in each account, and ignores the long term dynamic considerations. On TiVo's side it does not take into account the lost profits from accounts that were never opened, or from collateral deals with its technology that were never consummated. On EchoStar's side it allows the infringer to keep all the additional products from its content distribution operations, which were able to expand on the back of TiVo's patented technology. It is, however, in cases of this sort, hard to track down and measure the full set of indirect benefits that EchoStar obtained from these transactions. Sterner measures therefore should be applied.


Perhaps the most instructive and useful remedy deals with the duration of the patent injunction. It is commonplace that patents are for limited terms, after which the patented technology makes its way into the public domain for all to use. But it is manifestly unfair to allow EchoStar to use the now-protected technology once the patent expires, given that it had earlier use of it while the patent was in effect. One way to counter this particular risk is to extend the injunctive relief against EchoStar, and only EchoStar, for a period that equals the time that it made unauthorized use of the TiVo '389 patent. That approach would allow the patent to shift into the public domain for all legitimate competitors to use, but it would

impose a selective and well-deserved sanction against EchoStar for its continued deliberate wrong. The use of this relief reduces the administrative burdens on both the District Court and TiVo in calculating the level of damages. And it sends out to both EchoStar and the world at large the message that any party that commits itself to the violation of the patents owned by others will pay the price once it has been adjudged to have engaged in systematic and profitable programs of patent evasion. Remedial systems are often slow and cumbersome. The extension of injunctive relief is neither, and it is a sensible response to what threatens to become a serious social problem.

CONCLUSION

The contempt citation from the District Court should be affirmed, and the case should be remanded with instructions to impose further sanctions on EchoStar that are not inconsistent with this opinion.

Respectfully submitted,

Handwritten signature of Richard A. Epstein in black ink, written over a horizontal line.

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September 17, 2010

**United States Court of Appeals
for the Federal Circuit
TIVO v. ECHOSTAR, 2009-1374**


**DECLARATION OF AUTHORITY PURSUANT TO
28 U.S.C. § 1746 AND FEDERAL CIRCUIT RULE 47.3(d)**

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September 17, 2010



John C. Kruesi, Jr.

**United States Court of Appeals
for the Federal Circuit**
TIVO v. ECHOSTAR, 2009-1374

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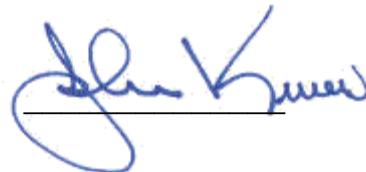
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