

Substitute for *KSM* case on page 22:

United States Court of Appeals,  
Federal Circuit.

TIVO INC.  
v.  
ECHOSTAR CORPORATION

No. 2009–1374.  
April 20, 2011.

Before RADER, Chief Judge, and NEWMAN, MAYER, LOURIE, BRYSON, GAJARSA, LINN, DYK, PROST, MOORE, O'MALLEY, and REYNA, Circuit Judges, on rehearing en banc.

Opinion for the court filed by Circuit Judge LOURIE, in which Circuit Judges NEWMAN, MAYER, BRYSON, MOORE, O'MALLEY, and REYNA join in full, and in which Chief Judge RADER and Circuit Judges GAJARSA, LINN, DYK, and PROST join in parts A1–A3(a).

Dissenting-in-part opinion filed by Circuit Judge DYK, in which Chief Judge RADER and Circuit Judges GAJARSA, LINN, and PROST join.

LOURIE, Circuit Judge.

Appellants (collectively, “EchoStar”) appeal from the district court's decision finding EchoStar in contempt of two separate provisions of the court's permanent injunction order. *See TiVo Inc. v. Dish Network Corp.*, 640 F.Supp.2d 853 (E.D.Tex.2009). A panel of this court affirmed the district court's decision, concluding that EchoStar had in fact violated the infringement provision of the permanent injunction under our earlier decision in *KSM Fastening Systems v. H.A. Jones Co.*, 776 F.2d 1522, 1532 (Fed.Cir.1985), and that EchoStar had waived its unenforceability arguments on the disablement provision of the permanent injunction. *TiVo, Inc. v. EchoStar Corp.*, No. 2009–1374, slip op. at 1 (Fed.Cir. Mar. 4, 2010), *vacated*, *TiVo, Inc. v. EchoStar Corp.*, 376 Fed.Appx. 21, 21–22 (Fed.Cir.2010). EchoStar petitioned for rehearing en banc, urging clarification of the proper scope of the colorable differences test and challenging the enforceability of the district court's injunction based on overbreadth and vagueness. We granted EchoStar's petition and directed the parties to address the circumstances under which a finding of contempt by a district court would be proper as to infringement by newly accused products and also address the proper time to raise the defenses of vagueness and overbreadth of an injunction.

As a result of our consideration of this case *en banc*, we hold that the two-step *KSM* analysis is unsound in contempt cases and we clarify the standards governing contempt proceedings in patent in-

fringement cases. We therefore vacate the district court's finding of contempt of the infringement provision of the permanent injunction, and remand to the district court to make a factual determination of colorable differences under the new standard we lay out here. We thus vacate in part the damages awarded to TiVo for EchoStar's continued infringement. However, we once again affirm the district court's finding of contempt of the disablement provision of the permanent injunction and its sanctions award in its entirety because we conclude that EchoStar waived arguments of overbreadth and vagueness with regard to that provision.

## BACKGROUND

TiVo Inc. (“TiVo”) owns U.S. Patent 6,233,389 (“the '389 patent” or “TiVo's patent”), which is entitled “Multimedia Time Warping System.” The patented technology allows television users to simultaneously record and play (“time-shift”) television broadcasts using what is commonly known as a digital video recorder (“DVR”). A DVR allows users to fast-forward, rewind, pause, and replay a “live” television program while it is playing on the television set. TiVo's patent covers various features essential to the working of a DVR.

In 2004, TiVo sued EchoStar in the United States District Court for the Eastern District of Texas, alleging that its receivers infringe “hardware” claims (claims 1 and 32) and “software” claims (claims 31 and 61) of the ' 389 patent. The hardware claims are not at issue in this appeal.

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The accused EchoStar satellite television receivers can be broadly classified into two categories based on the processing chip employed by the receiver: the “50X” series and the “Broadcom” series. The district court submitted questions of infringement and invalidity to the jury. *TiVo, Inc. v. Dish Network Corp.*, No. 2:04–CV–00001, ECF No. 690 (E.D.Tex. Apr. 13, 2006) [hereinafter Verdict Form]. On infringement, the jury was asked whether eight different models of EchoStar receivers, three of the 50X series and five of the Broadcom series, literally infringed the hardware or software claims of TiVo's patent. *Id.* at 2–3. The jury answered “yes” for each of the asserted claims, for each of the eight listed receivers. *Id.* It also found, by clear and convincing evidence, that EchoStar's infringement was willful, *id.* at 4, and awarded TiVo approximately \$74 million in lost profits and reasonable royalties, *id.* at 8. The district court entered judgment on the verdict and issued a permanent injunction against EchoStar. In its injunction, the district court ordered EchoStar: (1) to stop making, using, offering to sell, and selling the receivers that had been found infringing by the jury (the “infringement” provision) and (2) to disable the DVR functionality in existing receivers that had already been placed with EchoStar's customers and in new placements that were yet to be placed with EchoStar's customers (the “disablement” provision). The infringement provision reads:

Each Defendant, its officers, agents, servants, employees, and attorneys, and those persons in active concert of participation with them who receive actual notice hereof, are hereby restrained and enjoined, pursuant to 35 U.S.C. 283 and Fed.R.Civ.P. 65(d), from making, using, offering to sell, selling, or importing in the United States, the Infringing

Products, either alone or in combination with any other product and all other products that are only colorably different therefrom in the context of the Infringed Claims, whether individually or in combination with other products or as a part of another product, and from otherwise infringing or inducing others to infringe the Infringed Claims of the '389 patent.

J.A.162. The disablement provision reads:

Defendants are hereby FURTHER ORDERED to, within thirty (30) days of the issuance of this order, disable the DVR functionality (i.e., disable all storage to and playback from a hard disk drive of television data) in all but 192,708 units of the Infringing Products that have been placed with an end user or subscriber. The DVR functionality, i.e., disable all storage to and playback from hard disk drive of television data) [sic] shall not be enabled in any new placements of the Infringing Products.

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The district court's definition of the term “Infringing Products” listed the same model numbers that the jury in its verdict had found infringing.

Following the entry of final judgment by the district court, we \*\*\* found no error in the district court's construction of the software claims and also affirmed the jury's verdict that the EchoStar devices infringed the software claims of the '389 patent.

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Following the decision on the appeal, TiVo moved the district court to find EchoStar in contempt of the court's permanent injunction. After conducting a series of hearings on TiVo's motion, the district court ruled that EchoStar was in contempt of both provisions of its permanent injunction. With regard to the infringement provision, the district court rejected EchoStar's argument that it had redesigned its infringing receivers in a manner that rendered them more than colorably different from the adjudged infringing devices. EchoStar contended that it had redesigned the infringing software on both the 50X and the Broadcom receivers so that [two limitations] of claims 31 and 61 [were] no longer satisfied.

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The district court evaluated the two modifications and found by clear and convincing evidence that the modified DVR software was not more than colorably different from the infringing software, and did continue to infringe the software claims. \*\*\* In the absence of more than a colorable difference between EchoStar's original and modified devices, the district court concluded that contempt proceedings were appropriate under our decision in *KSM*. *Id.* at 871. Because it then found clear and convincing evidence of continued infringement of the software claims by the modified devices, the district court held EchoStar to be in violation of the infringement provision of the injunction. *Id.* at 873.

Moreover, the district court held that even if EchoStar had achieved a noninfringing design-around, EchoStar would still be in contempt because it had failed to comply with the plain language of the disablement provision in the district court's order requiring it to disable DVR functionality completely from the specifically named receiver models adjudged to be infringing at trial. EchoStar argued to the district court that because the disablement provision required it to disable "Infringing Products," EchoStar was merely required to disable infringing DVR software, which did not exist once it had redesigned its receiver software. The district court rejected that argument, reasoning that if EchoStar believed that the infringing receivers in their entirety were not subject to the order or that the order improperly covered noninfringing practices, then EchoStar should have requested that the district court modify its order or should have challenged the scope of the injunction on appeal. *Id.* at 874. The district court concluded that having failed to do either at the time that the injunction issued, EchoStar had waived any argument that the injunction was overbroad. *Id.*

In view of EchoStar's contempt of the court's order, the district court imposed sanctions against EchoStar in the amount of nearly \$90 million. *TiVo Inc. v. Dish Network Corp.*, 655 F.Supp.2d 661, 666 (E.D.Tex.2009). The court also awarded damages to TiVo for the continued infringement by EchoStar's redesigned software. *Id.* Further, the court amended its earlier injunction, requiring EchoStar to seek the court's approval before implementing future noninfringing workarounds to its DVR software.

## DISCUSSION

### A.

#### *Contempt for Violation of the Infringement Provision*

We begin by providing clarification of the standard to be used for determining contempt in cases of alleged continued infringement. EchoStar argues that it was improper for the district court to decide issues relating to continued infringement by EchoStar's modified software in a summary contempt proceeding, as opposed to a new trial on the merits, and to find EchoStar in contempt of the infringement provision of the injunction. According to EchoStar, its modifications to the infringing DVR software rendered the modified receivers more than colorably different from the one found infringing in the prior jury trial. Moreover, EchoStar contends, it undertook a "Herculean" effort in redesigning the DVR software in its receivers and, by obtaining opinions of counsel, it made a good faith effort to ensure that its devices would no longer infringe the software claims of TiVo's patent. We address each of these arguments in turn.

#### 1. Good Faith as a Defense to Civil Contempt

We first consider EchoStar's arguments that contempt is 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." EchoStar argues that it employed 15 engineers for 8000 hours to complete the software redesign, which took a year. Similarly, it stresses the fact that it obtained an opinion of noninfringement from a respected patent law firm. It further contends that the redesign, by allowing for data loss, compromised performance in order to avoid infringement of TiVo's patent, giving it a

product inferior to what it previously had. In light of this evidence, EchoStar argues, the district court was incorrect in finding it in contempt.

We disagree and conclude that EchoStar misreads the law. We have made it clear that, under Supreme Court precedent, a lack of intent to violate an injunction alone cannot save an infringer from a finding of contempt. *Additive Controls & Measurement Sys., Inc. v. Flowdata, Inc.*, 154 F.3d 1345, 1353 (Fed.Cir.1998) (“The general rule in civil contempt is that a party need not intend to violate an injunction to be found in contempt.”). “Since the purpose [of civil contempt] is remedial, it matters not with what intent the defendant did the prohibited act.... An act does not cease to be a violation of a law and of a decree merely because it may have been done innocently.” *McComb v. Jacksonville Paper Co.*, 336 U.S. 187, 191, 69 S.Ct. 497, 93 L.Ed. 599 (1949). We are thus bound by Supreme Court precedent to reject EchoStar's good faith arguments and its reliance upon opinions of counsel. Although a defendant's diligence and good faith efforts are not a defense to contempt, these factors may be considered in assessing penalties, a matter as to which the district court has considerable discretion. *See, e.g., Test Masters Educ. Servs., Inc. v. Singh*, 428 F.3d 559, 582 (5th Cir.2005); *Stryker Corp. v. Davol, Inc.*, 234 F.3d 1252, 1260 (Fed.Cir.2000). However, the district court was correct in rejecting EchoStar's good faith arguments in deciding whether a violation had occurred.

## 2. The Propriety of a Contempt Proceeding on Infringement

In recent times, we have required district courts to make a two-part inquiry in finding a defendant in contempt of an injunction in patent infringement cases. *KSM Fastening Sys., Inc. v. H.A. Jones Co.*, 776 F.2d 1522, 1530–32 (Fed.Cir.1985). First, the court must determine whether a contempt hearing is an appropriate setting in which to adjudge infringement by the redesigned product. *Id.* at 1532. The court may do this by comparing the accused product with the adjudged infringing product to determine if there is “more than a colorable difference” between the accused product and the adjudged infringing product such that “substantial open issues with respect to infringement” exist. *Id.* Where the court finds that to be the case, a new trial is necessary to determine further infringement and the court may not proceed with a contempt finding. *Id.* Only in cases where the court is satisfied on the threshold inquiry of the appropriateness of a contempt proceeding can a court inquire whether the redesigned product continues to infringe the claims as previously construed. *Id.*

We conclude that *KSM's* two-step inquiry has been unworkable and now overrule that holding of *KSM*. *KSM* crafted a special rule for patent infringement cases, in that it required a threshold inquiry on the propriety of initiating a contempt proceeding. We recognize now that inquiry confuses the merits of the contempt with the propriety of initiating contempt proceedings. Moreover, as a practical matter, district courts do not separately determine the propriety of a contempt proceeding before proceeding to the merits of the contempt itself. As a result, we will telescope the current two-fold *KSM* inquiry into one, **eliminating the separate determination whether contempt proceedings were properly initiated**. That question, we hold, is left to the broad discretion of the trial court to be answered based on the facts presented. *Additive Controls*, 154 F.3d at 1349 (The district court “has broad discretion to determine how best 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**. As

with appeals from findings of civil contempt in other areas of law, we will only review whether the injunction at issue is both enforceable and violated, and whether the sanctions imposed were proper. Allegations that contempt proceedings were improper in the first instance do not state a defense to contempt. As to the question whether an injunction against patent infringement has been violated, courts should continue to employ a “more than colorable differences” standard as discussed below.

Thus, we decline to address EchoStar's argument that the district court, applying the old *KSM* standard, improperly held contempt proceedings in this case, although we note that there may be circumstances in which the initiation of contempt proceedings would constitute an abuse of discretion by the district court. Under our holding today, we find no abuse of discretion by the district court in proceeding to contempt. TiVo moved the district court to find EchoStar in contempt. Having reviewed the computer source code of the modifications to the infringing software, TiVo asserted to the district court that the modified EchoStar receiver software was not more than colorably different from the original one, and thus that EchoStar was in violation of the infringement provision of the permanent injunction. Given its familiarity with the parties, the patent at issue, and the infringing products, we do not find an abuse of discretion in the district court's decision to hold contempt proceedings.

### 3. The “More than Colorable Differences” Test

#### (a) Discussion of the Law

The criteria for adjudicating a violation of a prohibition against continued infringement by a party whose products have already been adjudged to be infringing is a matter of Federal Circuit law. \*\*\* [T]he party seeking to enforce the injunction must prove both 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.

We have stated the test for colorable differences as one that requires determining whether “substantial open issues with respect to infringement to be tried” exist. *KSM*, 776 F.2d at 1532. In some cases, that has misled district courts to focus solely on infringement by the newly accused devices in deciding contempt. That is the case here. Today, we reject that infringement-based understanding of the colorably different test. Instead of focusing solely on infringement, the contempt analysis must focus initially on the differences between the features relied upon to establish infringement [i.e., in the earlier trial] and the modified features of the newly accused products.

\*\*\* The analysis must focus not on differences between randomly chosen features of the product found to infringe in the earlier infringement trial and the newly accused product, *Additive Controls*, 154 F.3d at 1350, but on those aspects of the accused product that were previously alleged to be, and were a basis for, the prior finding of infringement, and the modified features of the newly accused product. Specifically, one should focus on those elements of the adjudged infringing products that the patentee previously contended, and proved, satisfy specific limitations of the asserted claims. Where one or more of those elements previously found to infringe has been modified, or removed, the court must make an inquiry into whether that modification is significant. If those differences between the old and new ele-



ments are significant, the newly accused product as a whole shall be deemed more than colorably different from the adjudged infringing one, and the inquiry into whether the newly accused product actually infringes is irrelevant. Contempt is then inappropriate. \*\*\*

The significance of the differences between the two products is much dependent on the nature of the products at issue. The court must also look to the relevant prior art, if any is available, to determine if the modification merely employs or combines elements already known in the prior art in a manner that would have been obvious to a person of ordinary skill in the art at the time the modification was made.<sup>FN1</sup> A nonobvious modification may well result in a finding of more than a colorable difference. Where useful, a district court may seek expert testimony in making the determination. \*\*\* But an assertion that one has permissibly designed around a patent should not be used to mask continued infringement. Determining the requisite level of difference is a question of fact.

Conversely, when a court concludes that there are no more than colorable differences between the adjudged infringing product and modified product, a finding that the newly accused product continues to infringe the relevant claims is additionally essential for a violation of an injunction against infringement. *KSM*, 776 F.2d at 1528. Thus, the court is required 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, out of fairness, the district court is bound by any prior claim construction that it had performed in the case. The patentee bears the burden of proving violation of the injunction by clear and convincing evidence, a burden that applies to both infringement and colorable differences. As with other factual determinations, both findings are reviewed for clear error. Where the court finds a violation and awards sanctions, such a sanctions award is reviewable for an abuse of discretion.

[The court determines that a remand is necessary to decide the colorable differences question.]

## B.

### *Contempt for Violation of the Disablement Provision*

We consider next EchoStar's arguments that the injunction is unenforceable either because it is overly broad or it is too vague to provide fair notice of what it actually prohibits. We find both arguments unpersuasive.

#### 1. Vagueness

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EchoStar's vagueness defense rests on its argument that the term "Infringing Products" in the district court's injunction is ambiguous, thereby rendering the injunction vague and unenforceable. The disablement provision deals separately with the receivers already placed in EchoStar's customers' homes

and new placements that are yet to reach the customer. EchoStar notes that while the first directive of the disablement provision calls for EchoStar to “disable the DVR functionality of the Infringing Products that have been placed with an end user or subscriber,” the sentence following it requires that “[t]he DVR functionality, storage to and playback from a hard disk drive shall not be enabled in any new placements of the Infringing Products.” EchoStar argues that this second sentence, because it references new placements, requires that the term “Infringing Products” be read as referring only to infringing functionality. After all, EchoStar continues, one does not disable a function that has yet to be devised or installed. \*\*\*

We do not agree with EchoStar that the stretched reading of the disablement provision that it proposes allows it to collaterally attack the district court's injunction at this stage of the proceedings. We agree that in certain circumstances vagueness can operate as a defense to contempt. In a case such as this, however, where a party has bypassed opportunities to present its asserted vagueness claim on appeal or through a motion to clarify or modify the injunction, the party cannot disregard the injunction and then object to being held in contempt when the courts conclude that the injunction covered the party's conduct. \*\*\*

[EchoStar] did [not] disable any DVR functionality in even a single receiver that had been found infringing by the jury. It unilaterally decided that downloading modified software to its infringing receivers was sufficient to comply with the district court's injunction. \*\*\* The injunction here is not unintelligible. Moreover, from the time that the injunction issued to the time that the district court found it in contempt, EchoStar never once raised the facial ambiguity that it now finds in the injunction. It cannot now spring its ambiguity defense to avoid contempt on the basis of its self-serving interpretation of the court's injunction. To hold otherwise would indeed impose an unnecessarily heavy burden on district courts to draft immaculate orders—a burden that neither the federal rules nor the Supreme Court mandate—and would radically constrict district courts' inherent power to enforce their orders. We decline to do so and conclude that EchoStar has waived its vagueness arguments.

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## 2. Overbreadth

EchoStar argues that even if the district court's reading of the disablement provision is the proper one, the order would still be unenforceable because the prohibition of noninfringing activity is unlawful. EchoStar contends that it simply downloaded noninfringing software to the receivers that it had placed with consumers. EchoStar argues that the district court's injunction cannot prohibit such noninfringing design-arounds. Because such an injunction would be unlawfully overbroad, EchoStar contends that it should not be expected to “appeal an unnatural reading of an injunction” at the time that the injunction issued. We disagree and conclude that a broad reading of the disablement provision to include *all* DVR functionality is not “unnatural” and that having failed to raise the issue on direct appeal, EchoStar is now barred from using it as a defense to the district court's finding of contempt. \*\*\* We therefore conclude that EchoStar's arguments on overbreadth of the district court's injunction have been waived by its failure to raise them earlier. Had EchoStar brought an appeal on the injunction at the time that it issued, arguing that the injunction was overbroad, we could have addressed its legitimacy. The time to do so has



long passed.

As a result, we affirm the district court's finding of contempt and the \$1.00 per subscriber per month, totaling approximately \$90 million, awarded by the district court as a sanction against EchoStar. The district court expressly stated that this award was made on alternative grounds, *i.e.*, for violation of either of the two separate provisions of the injunction, that dealing with disablement and the other dealing with infringement. Although we vacate the finding of contempt of the infringement provision, the finding of contempt of the disablement provision has been affirmed. We therefore have no basis for modifying the amount of the sanction.

### CONCLUSION

In sum, we vacate the court's holding of contempt of the infringement provision and remand for the court to make a finding concerning any colorable difference between the previously adjudicated infringing devices and the newly accused devices. We vacate in part the damages awarded for continued infringement. We affirm the district court's finding of contempt of the disablement provision of the court's injunction and the sanctions imposed by the district court.

### AFFIRMED IN PART, VACATED IN PART, AND REMANDED

DYK, Circuit Judge, with whom Chief Judge RADER and Circuit Judges GAJARSA, LINN, and PROST join, dissenting-in-part.

While I join Parts A(1)-(3)(a) of the majority decision, I dissent from parts A(3)(b) and B. In particular, I dissent from the majority's decision to uphold the finding of contempt of the disablement provision. In my view, the disablement provision does not bar the installation of modified software that renders the devices non-infringing, and, even if the provision were unclear, an unclear injunction cannot be the basis for contempt. The majority's holding that lack of clarity provides no defense is inconsistent with established law reflected in numerous decisions of the Supreme Court, our own court, and our sister circuits.

I also dissent from the majority's decision to remand to the district court to determine whether EchoStar violated the infringement provision. In my view, that provision plainly was not violated. Finally, I dissent from the majority's affirmance of the \$90 million sanctions award, which was based in part on the finding of contempt of the infringement provision. If the contempt finding is set aside with respect to the infringement provision, the sanctions award must also be set aside.

Before today's majority decision—upholding contempt of the disablement provision based on an apparently successful design-around—two principles seemed well established. The first of these was that accused infringers were encouraged to design around patent claims to achieve non-infringing products and methods. As this court has recognized, “designing new and possibly better or cheaper functional equivalents [of a competitor's product] is the stuff of which competition is made.” *State Indus. Inc. v.*

*A.O. Smith Corp.*, 751 F.2d 1226, 1235–36 (Fed.Cir.1985). The second was that contempt sanctions could not be imposed for the violation of an injunction that failed to provide sufficient clarity. As the Supreme Court stated in *Granny Goose Foods, Inc. v. Teamsters*, 415 U.S. 423, 444, 94 S.Ct. 1113, 39 L.Ed.2d 435 (1974), the “basic principle built into [Federal Rule of Civil Procedure] 65 is that those against whom an injunction is issued should receive fair and precisely drawn notice of what the injunction actually prohibits.” The majority has disregarded both principles with predictably unhappy consequences for the innovation community.

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