

The importance of finality in patent litigation

Repeated cries for multiple examinations, trials and appeals by an adjudicated infringer, such as EchoStar in the TiVo patent case, should be rejected as thinly veiled efforts to run out the clock on valid property rights.

BY F. SCOTT KIEFF

Does “no” mean no when courts enforce patents? It should. But that’s an open question today. It was debated last month before a full session of the court that hears most patent appeals, the U.S. Court of Appeals for the Federal Circuit, in Washington.

The case is *TiVo v. EchoStar*, and it focuses on TiVo Inc.’s revolutionary, time-shifting technology for letting us watch the TV shows we want, when we want, rather than when they’re broadcast live. TiVo invented that technology. After the usual multiyear patent trial, EchoStar Corp. was found to have willfully infringed the valid patent. The trial court thought it wrapped up that case with a judgment that included an order that EchoStar turn off the key time-shifting feature — a digital video recorder (DVR) — of those set-top receiver boxes EchoStar had convinced customers to buy and install in their homes. These boxes were like mini-Trojan horses into which EchoStar could stream TV service for an ongoing subscription price much greater than the price for the box.

Turning off DVR functionality in the installed infringing boxes is a crucial part of the remedy because it helps neuter the predatory gains that EchoStar was able to hoard by flooding customers’ homes with infringing products at such low prices. Letting these boxes continue to be both receivers and DVRs would violate one of the most famous equitable maxims: “No one shall be permitted to take advantage of his own wrong.”

If you thought that was the end of the DVR functionality for those boxes, you’d be sorely mistaken. EchoStar managed to convince the courts to stay enforcement of this order while the case went up on appeal. And then after a few years of running that clock — after the Federal Circuit dealt what again looked like the finality-enforcing



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affirmance of the lower court’s orders on patent validity, willful infringement and the disablement injunction — EchoStar pushed a button and downloaded new software to those installed boxes, arguing that, because the new software was designed to get around the patent, TiVo had to now start the process afresh to bring a new case against this new design.

Again the trial court said “No.” After taking several months to allow for discovery and after a few days of a minitrial with witnesses and documents at which TiVo rightly had to carry the extra heavy burden of proof known as the “clear and convincing evidence” standard, the trial court determined that the newly reprogrammed boxes violated the original injunction, both because they violated the disablement provision and because their software modifications violated the claims in the patent. Again, the appellate court’s panel affirmed.

Amazingly, more than four years after the trial court’s first order, which was itself many years after the initial suit was brought and a few years after the patent was issued, EchoStar managed to convince enough of the Federal Circuit’s judges to agree to rehear this case before the court as a whole. So now those judges are revisiting the question of

what process is due when a trial court has to enforce its own prior injunction. Along the way, they also stayed the trial court’s restated injunction until they reach their own group decision, which could easily take another year. When most patents last only 17 years, this makes running out the clock on the patent far more than a possibility.

Although the debate raises a theoretically interesting question that might be ripe in some close case we might imagine, it’s a red herring for this case, and a refusal to enforce this injunction would deal a huge blow to the patent system. It also would be a procedural travesty for the appellate court sitting en banc at this very late stage to give EchoStar an umpteenth bite at the apple by doing a fresh comparison of product features with the patent’s claim terms like “parsing” and “audio and video data.” Such a deep dive into the weeds of the technologically complex factual landscape is properly left to the trial court and the appellate panels, on either the first or second appeal. The Federal Circuit’s own en banc order properly states that it will be focused on broad questions of law and policy.

PATENT ENFORCEMENT IS KEY

Reliable enforcement of injunctions is essential for the system. Getting an invention made and bringing it to market requires coordination among many complementary users of that technology, including developers, managers, laborers, other technologists, financiers, manufacturers, marketers and distributors. Patents help those various actors to interconnect like modules of a larger system through an underlying mechanism that depends on the expectation that injunctions will be enforced.

The belief that parties who do not respect the patent boundaries will actually be kept out acts on the front end like a beacon in the dark, drawing together around the patent all those interested in the patented

subject matter. This beacon effect starts the conversations.

That belief in enforcement motivates many of those conversations to result in agreements over the technology's use. This bargaining effect falls apart if everyone knows others won't actually be kept away, because then there would be little benefit to being part of those up-front agreements. Even the promise of a share in some shot at money damages or tax credits usually won't be adequate enticement. Patent agreements are usually complex and tailored to the specifics of each case, which is why they usually take many pages of text. If they were all about money, they'd be a single sentence containing the patent number, dollar amount and maybe some "have a nice day" clause for good will. Remove the hope of patent injunctions, and you also get increased reliance on trade secrets by erstwhile patentees, which denies us all the public disclosures in the patent that help direct competitors into fruitful areas of research, and customers, advisers and regulators into fruitful areas of inquiry.

While use of a patent's underlying ideas does not deprive others of the same use, those investing in contracts over patents usually want a return for having invested some particular assets such as labor, lab space, unique business relationships and so forth, that are what economists would call "rival" because use by one person does deprive use by another. Moreover, these patent contracts allocate the relative values of these investments and returns without the legal system having to trace it all through to decide who gets what share.

'COLORABLE DIFFERENCES'

Courts have long enforced injunctions using expedited procedures called "contempt proceedings" whenever the differences between the new product and the old one are merely colorable. Although this test, known as "colorable differences," might benefit from refining, TiVo wins under any of the likely refinements.

In patent law as elsewhere, a "colorable differences" test operates as an anti-manipulation device — it gets at which differences likely reflect a fake rather than a genuine difference because they are only colorable. It's designed to give a lasting peace from trespass after the exhaustive litigation has been won. It's not designed to give careful guidance to the infringer about the finest distinctions between those differences that will be too small and those that will be too large. It's not designed to paint a bright line because a bright line invites and

allows infringers to dance up to and over it until they get caught. By arguing that "colorable difference" is some bright-line quantum of difference, EchoStar is simply standing "colorable differences" on its head. EchoStar's been caught with its hand in the cookie jar, and it shouldn't now be allowed to argue that it's not sure it understands exactly which cookies it grabbed. The courts have already told EchoStar it's not even its jar.

EchoStar argues that enforcing an injunction though contempt poses too great a hardship for it, especially because it says it used good faith in hiring outside patent lawyers to help it design around the injunction. But that misses the point because EchoStar brought this on itself. EchoStar created the need for the contempt proceeding by repeatedly dancing too close to the line. A core goal of injunctions is to prevent repetitive, inconvenient litigation, not merely tactics that are vexatious.

Nor should EchoStar be heard to cry unfair surprise or hardship. Equity gives the defendant an opportunity to inform itself. EchoStar could have asked for clearance or clarification before it spent the money trying to design around the order. Another of equity's maxims: "One who seeks equity must do equity."

While the careful rules for court procedures do serve in part to protect defendants like EchoStar, they also protect those who have rights that have been adjudicated to have been violated, like TiVo, as well as the dignity of the courts. EchoStar's alleged good faith can't be the only factor to consider because such a singular focus fails to account for the hardship on TiVo and the court. It also is striking to consider EchoStar's repeated efforts to point out the Patent and Trademark Office's purported threats to cancel the patent in yet another crack at re-examination. The most recent of these re-examination attempts, which of course get under way with almost pro forma rejections of the patent claims, ended this past October with the patent validity upheld, yet again.

Another red herring is the worry that the disablement provision effectively blocks all DVR functionality, even if some new version were to avoid the patent. But even this reach beyond the patent is appropriate. This injunction is specifically targeted to only EchoStar and to only those boxes that are already shown to infringe; if a court has the power to order such infringing products to be destroyed, it must also have the power to order their DVR functions disabled. Indeed, if injunctions shouldn't capture things different from the patent

claim, then the legal test wouldn't turn on whether the differences were colorable. "Colorable differences" is a way of making the prohibited zone administrable; it's not some backdoor way to expand the patent.

It makes sense to leave EchoStar the option of trying to sell new, noninfringing boxes to its own customers who want DVR functionality. This leaves both EchoStar and TiVo on equal footing when they try to market their competing DVR services. When gaining customers is largely about getting in their front door and keeping them is largely about lock-in, the infringer's basic business model could be to sell customers the purportedly TiVo-like DVR-enabled box as a Trojan horse to hold onto those customers as ongoing subscribers, especially if TiVo would have to start a whole new trial every time new software is downloaded to those boxes.

Lastly, the trial court's injunction-enforcement proceeding doesn't even come close to violating some Seventh Amendment right to a full trial because there is no such right. EchoStar's recent reply brief fully concedes that, even if a new case were brought, the proceedings in it could be at least as abbreviated as they were in the district court's injunction-enforcement proceeding. EchoStar agrees in that brief that the court could have entered a preliminary injunction, without requiring TiVo to post a bond, and granted summary judgment, enhanced damages and attorney fees, as well as a permanent injunction. So then there's nothing but a distinction without a difference between the proceedings the district court did use and those that even EchoStar says would be A-OK.

To strengthen our economy by creating jobs and increasing innovation and competition our patent system needs investment. That investment needs patents to be enforced at some point during their relatively short lives. Otherwise, it will always make sense to simply infringe and pay for trial attorneys while running out the clock whenever the technology is worth billions of dollars but litigation costs are only, at most, in the tens of millions.

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