

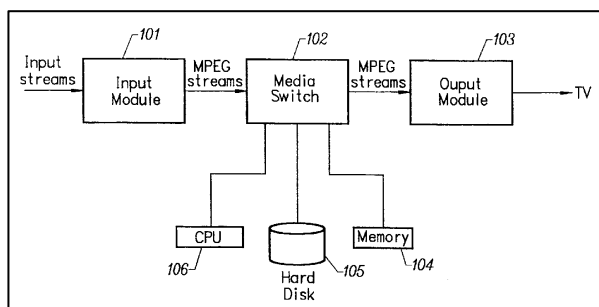
## Down(downloaded) and Dyslexic? The Difference Between “No” and “On”

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What does “disable” mean? That was the \$200 million dollar question. After seven years of expensive, time-consuming, contentious patent infringement litigation between TiVo and EchoStar, the Federal Circuit Court of Appeals had to decide whether EchoStar’s redesigned software was “so different” from its already-to-be-found-infringing digital video recorder software that EchoStar should not be held in contempt of a court-ordered permanent injunction. EchoStar’s conduct, and the Court’s decision, has implications for design-around efforts intended to render an infringing device non-infringing. Before getting to the Court’s decision and in keeping with the product at issue here, it is appropriate to hit the rewind button and play back some of the history and key facts of the litigation battle.

### Time Shifting by the Millions

TiVo owns U.S. Pat. No. 6,233,389 (“the ‘389 patent”). The ‘389 patent is unusual in two ways. First, its title, Multimedia Time Warping System, is not a run-of-the-mill patent title. Second, its subject matter created a whole new industry and, along with it, saved countless relationships.<sup>1</sup> The patent, which issued in 2001, claimed a device and process (see figure below)<sup>2</sup> which allowed users to “simultaneously record and play (‘time shift’) television broadcast signals.”<sup>3</sup> That time-shifting device has come to be known as the digital video recorder or DVR.



In March 1999, TiVo shipped the very first DVR while the ‘389 patent was still pending as an application in the U.S. Patent & Trademark Office.<sup>4</sup> Although sales of DVRs in the couple of years which followed failed to meet the initial (and perhaps overly optimistic) projections of the market analysts,<sup>5</sup> time shifting eventually found its way into an increasing number of households. By January 2007, about 12 percent of all households in Nielsen’s National People Meter Panel had one.<sup>6</sup> Roughly two years later, in March 2009, about 31 percent of households in the Panel had one.<sup>7</sup> As of February 2011, almost

<sup>1</sup> See Andrew Wallenstein, *Digital Video Recorders Don't Just Save TV Shows, According to a New Survey; They Save Relationships*, Reuters/Hollywood Reporter (Sep. 3, 2008; 3:56 pm EDT), <http://www.reuters.com/article/2008/09/03/us-dvr-idUSN0345759420080903> (accessed May 30, 2011).

<sup>2</sup> FIG. 1 of the ‘389 patent.

<sup>3</sup> *TiVo, Inc. v. EchoStar Communications Corp.* (hereinafter *TiVo V*), \_\_\_ F.3d \_\_\_, 2011 WL 1486162 at \*1 (Fed. Cir., Apr. 20, 2011).

<sup>4</sup> TiVo.com, *History*, <http://www.tivo.com/abouttivo/jobs/interview/history-of-tivo.html> at “Blue Moon” (accessed May 28, 2011).

<sup>5</sup> See Erich Luening, *DVR Market Set to Fast-Forward*, CNET News (Apr. 2001, 10:35 am PDT <http://news.cnet.com/2100-1040-255732.html>) (accessed May 28, 2011).

<sup>6</sup> *How DVRs Are Changing the Television Landscape*, NielsenWire (Apr. 30, 2009), [http://blog.nielsen.com/nielsenwire/media\\_entertainment/how-dvrs-are-changing-the-television-landscape/](http://blog.nielsen.com/nielsenwire/media_entertainment/how-dvrs-are-changing-the-television-landscape/) (accessed May 28, 2011).

<sup>7</sup> *How DVRs Are Changing the Television Landscape*, NielsenWire (Apr. 30, 2009), [http://blog.nielsen.com/nielsenwire/media\\_entertainment/how-dvrs-are-changing-the-television-landscape/](http://blog.nielsen.com/nielsenwire/media_entertainment/how-dvrs-are-changing-the-television-landscape/) (accessed May 28, 2011).

40% of all households had one.<sup>8</sup> Millions of viewers are represented by these numbers. And so are billions of dollars. Not surprisingly, greed followed close behind.

### **“It Became Clear . . . They Were Not Interested”**

The DVR proved to be an innovative technology which had the potential to remake the television business model and value chain.<sup>9</sup> Therefore, it came as no surprise that satellite, cable and other technology companies wanted in on it. TiVo wanted to license the technology and EchoStar, which is the parent company of Dish Network, was “one of the many satellite and cable companies to whom TiVo had . . . pitched a license.”<sup>10</sup> EchoStar was not receptive, favoring its own DVR products and technology strategy.<sup>11</sup> Recalling the negotiations with EchoStar, TiVo’s then-general counsel noted, “[i]t became clear to us that they were not interested in licensing our technology.”<sup>12</sup>

Despite having no license, as well as no written infringement opinion from outside counsel,<sup>13</sup> EchoStar began making and selling a series of DVRs known as the 50X series and Broadcom series.<sup>14</sup> The problem for EchoStar was that, in TiVo’s view, the hardware and software associated with those two series of DVRs accomplished the desired time shifting in the same way as the ‘389 patent. With licensing negotiations at an impasse, TiVo sued EchoStar for patent infringement.<sup>15</sup> It turned out that TiVo was right.

### **Stop and Disable**

After hearing each side present its case, a jury concluded that EchoStar had willfully infringed the hardware and software claims of the ‘389 patent. It awarded TiVo approximately \$74 million in damages (\$33 million in lost profits and \$41 million in reasonable royalties).<sup>16</sup> Following the verdict, TiVo asked the court to issue a permanent injunction to prevent EchoStar from any further infringement of the patent.

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<sup>8</sup> Robert Seidman, *DVR Penetration Grows to 39.7% of Households, 42.2% of Viewers*, TVbytheNumbers (Mar. 23, 2011), <http://tvbythenumbers.zap2it.com/2011/03/23/dvr-penetration-grows-to-39-7-of-households-42-2-of-viewers/86819/> (accessed May 28, 2011).

<sup>9</sup> See Konstantinos Chorianopoulos & Diomidis Spinellis, *Coping with TiVo: Opportunities of the Networked Digital Video Recorder*, 24 *Telematics and Informatics* 48 (No. 1, Feb. 2007) (working draft available at <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.78.2369&rep=rep1&type=pdf>).

<sup>10</sup> Allen Cohen, *The Trouble with TiVo*, Corporate Counsel Online (Jul. 1, 2004), available at <http://www.law.com/jsp/cc/index.jsp> (search “trouble with tivo”) (accessed May 29, 2011); see also *TiVo, Inc. v. EchoStar Communications Corp.* (hereinafter *TiVo II*), 516 F.3d 1290, 1310 (Fed. Cir. 2008) (discussing license negotiations between the parties).

<sup>11</sup> See Dish Network, *Dish Network Corporation Timeline*, <http://www.dishnetwork.com/about/profile/history/default.aspx> (accessed May 30, 2011). In January 2001, EchoStar introduced DISH Network PRO 501, a – satellite television receiver which featured digital video recording and “interactive TV.”

<sup>12</sup> Cohen, *supra*, n. 11 (quoting Matthew Zinn).

<sup>13</sup> *TiVo II* at 1310–11. EchoStar argued that it did not pursue a written infringement opinion because “its own internal investigation satisfied it that there was no infringement and because it was engaged in negotiating a business deal with TiVo that the made the issue of possible infringement less important.” *Id.*

<sup>14</sup> See *TiVo V*, 2011 WL 1486162 at \*2. In August 2003, Dish Network introduced the DISH Player-DVR 510. See Dish Network, *supra*, n. 11.

<sup>15</sup> See *TiVo II*, 516 F.3d at 1294.

<sup>16</sup> *Id.* at 1294.

The injunction included two critical provisions.<sup>17</sup> The first was the Infringement Provision. This provision enjoined EchoStar from

making, using, offering to sell, selling or importing . . . the Infringing Products, either alone or in combination with any other product and all other products that are *only colorably different* . . . in the context of the Infringed Claims . . .<sup>18</sup>

The injunction defined “Infringing Products” as specific DVR receiver model numbers in the 50X and Broadcom series.<sup>19</sup> The Infringed Claims were defined as including two of the software claims, 31 and 61.<sup>20</sup>

The second critical provision was the Disablement Provision. This provision ordered EchoStar to

within thirty (30) days . . . *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 Infringing Products.<sup>21</sup>

The stakes were high. EchoStar argued an injunction could cost it \$90 million per month in lost revenue<sup>22</sup> and would be inherently unfair to the “three million families [it served] who were innocent of any wrongdoing.”<sup>23</sup> From TiVo’s perspective, allowing EchoStar’s continued infringement would cost TiVo additional lost market share and revenue because DVR customers are “sticky,” buying new DVRs or services from the company from which they obtained their first DVR.<sup>24</sup> Unlike EchoStar, TiVo’s only product was DVRs.

EchoStar had another problem with the injunction. It considered the disablement language “overbroad.”<sup>25</sup> The “appropriate scope of the injunction, if one were to issue, [should] enjoin only the provision of infringing DVR software to those [model numbers] upon activation.”<sup>26</sup> TiVo warned that if the court were to adopt EchoStar’s proposed language,

it would be an invitation for EchoStar to engage in mischief . . . [and] would only result in EchoStar providing what it deemed as non-infringing DVR software to its already-found-to-be-infringing DVRs, creating the opportunity for interminable disputes to determine what exactly is infringing DVR software.<sup>27</sup>

Little did the district court know that while EchoStar was keeping it (and TiVo) tied-up with this and other arguments,<sup>28</sup> EchoStar engineers were already engaged in this kind of “mischief.”

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<sup>17</sup> *Id.* 5at 1294.

<sup>18</sup> *TiVo V*, 2011 WL 1486162 at \*3 (emphasis added).

<sup>19</sup> *Id.* at \*3. The specific 50X series model numbers were DP-501, DP-508 and DP-510. The Broadcom series model numbers were Dp-522, DP-625, DP-721, DP-921, and DP-942.

<sup>20</sup> *Id.*

<sup>21</sup> *Id.* (sic in original) (emphasis added).

<sup>22</sup> *Id.* at \*5.

<sup>23</sup> *TiVo I*, 446 F. Supp.2d at 668.

<sup>24</sup> *Id.* at 670.

<sup>25</sup> *TiVo III*, 640 F. Supp. 2d at 859.

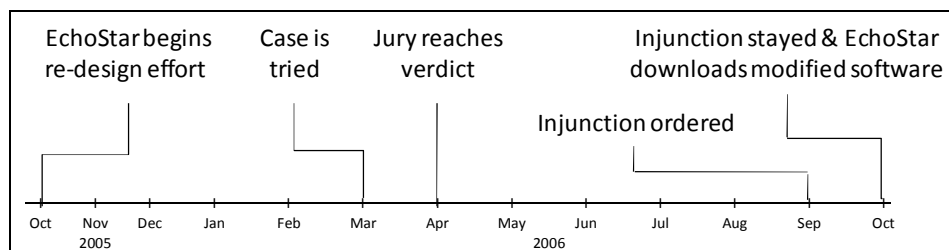
<sup>26</sup> *TiVo, Inc. v. Dish Network Corp.* (hereinafter *TiVo II*), 640 F.Supp.2d 853, 858 (E.D. Tex. 2009).

<sup>27</sup> *Id.* (quotations in original omitted).

<sup>28</sup> *See TiVo, Inc. v. EchoStar Communications Corp.* (hereinafter *TiVo I*), 446 F. Supp. 2d 664 (E.D. Tex. 2006).

## A “Herculean Effort”

Approximately six months before the case was tried or the jury had reached its verdict, EchoStar already had begun its design-around effort (see timeline below). In what EchoStar later characterized as a “Herculean effort,” engineers were busy redesigning the software.<sup>29</sup> By the time the district court entered the permanent injunction with the Infringement and Disablement Provisions intact, EchoStar had placed its “best engineers” on the project<sup>30</sup> and was so far into the design-around effort that it had obtained three written infringement opinions from counsel.<sup>31</sup>



With the redesigned software still not quite ready for deployment, EchoStar temporarily avoided the injunction by appealing the infringement matter to the Federal Circuit and asking that court to stay the injunction until the appellate proceeding reached its conclusion. All this was well and good, but in arguing for the stay EchoStar “never mentioned its design-around efforts to the Federal Circuit.”<sup>32</sup> Additionally, as the re-design effort was taking place, EchoStar invested \$50 million in an advertising campaign which used the slogan, “Better than TiVo.”<sup>33</sup> Shortly after the Federal Circuit granted the stay to EchoStar, “EchoStar began downloading modified software into its customers’ DVRs.” Another 18 months or so passed before any court learned about what had happened.<sup>34</sup>

## Down(loaded) but Not Out

EchoStar did not fare a whole lot better in its appeal than it did at trial. Although the Federal Circuit overturned the lower court’s ruling on the hardware claims, it upheld the ruling of infringement of the software claims.<sup>35</sup> It also upheld the damages award because the award did not depend upon whether hardware or software claims were infringed.<sup>36</sup> When the appeal was all said and done, EchoStar still owed TiVo about \$74 million in damages. Worse still, it now had to comply with the permanent injunction.

<sup>29</sup> *TiVo V*, 2011 WL 1486162 at \*5. EchoStar had invested 8,000 man-hours and over \$700,000 in the re-design effort. *TiVo III*, 640 F. Supp. 2d at 869. This amount was far below the “tens of millions of dollars” which EchoStar’s CEO had estimated. *Id.*

<sup>30</sup> *TiVo III*, 640 F. Supp. 2d at 857.

<sup>31</sup> *Id.* at 858–59. “EchoStar’s development efforts were so far advanced that it had obtained three written opinions of counsel.” *Id.*

<sup>32</sup> *Id.* at 859.

<sup>33</sup> *Id.* at 869. The district court labeled this campaign “distasteful” given that it was occurring while EchoStar was still infringing the ‘389 patent. *See Tivo III*, 640 F. Supp. 2d at 665.

<sup>34</sup> *Id.* at 859. EchoStar stated that the redesign effort took a year to complete. *See TiVo V*, 2011 WL 1486162 at \*5. The modified software was downloaded in October 2006. *See Tivo III*, 640 F. Supp. at 859. It was not until May 2008, shortly after the appellate process had concluded, that EchoStar’s redesign effort and software download became known to any court. *Id.*

<sup>35</sup> *See TiVo V*, 516 F.3d at 1312.

<sup>36</sup> *Id.*

By this time, “EchoStar had long since downloaded its design-around effort-modified DVR software into [at least some of] its DVR products.”<sup>37</sup> Whether EchoStar actually downloaded the modified software into all of its infringing receivers was unclear because it had no “way to check if every unit received the new software.”<sup>38</sup> Regardless of whether the modified software was downloaded into all or some of the products, TiVo’s position was that EchoStar was now in contempt of the permanent injunction because it had not yet disabled a single receiver and was still providing “infringing DVR service to its customers on the very products that the jury found to infringe.”<sup>39</sup> EchoStar’s position was that it had successfully designed around the software claims of the ‘389 Patent. But what exactly had EchoStar done?

### **Brute Force and Lost Bits**

The ‘389 patent’s two software claims included the steps of (1) parsing video and audio data from a broadcast data stream and (2) automatically controlling the flow of the parsed data as it was transferred between data buffers and the hard drive of the receiver. To accomplish parsing, EchoStar’s infringing 50X and Broadcom series DVRs had made use of a “start code detection” feature.<sup>40</sup> The start code detection feature, which had been found to meet the ‘389 patent’s parsing requirement, parsed for codes that

designated the start of each video frame and indexed those codes so as to allow the system to precisely locate and access a required frame from the data stream whenever needed, such as during rewind and fast forward operations by the user.<sup>41</sup>

In the redesigned software, start code detection was replaced by “statistical estimation,” a method which EchoStar characterized as an “indexless” system and a “brute-force” search method.<sup>42</sup> Rather than provide a precise location of the desired video frame, the statistical estimation feature “relied on average frame rate statistics to estimate the location of a given video frame.”<sup>43</sup>

To accomplish automatic flow control, EchoStar’s infringing 50X and Broadcom series had used a pool of ten buffers (the transport buffer) and an intermediate record buffer so that there would not be any data loss. The way this worked was

when one of the ten buffers in the transport buffer was full, EchoStar’s software would copy the data from that single buffer into the record buffer. Additional data would not be transferred from any of the nine remaining buffers to the record buffer until the record buffer’s data had been transferred to the hard drive.<sup>44</sup>

In the redesigned software, the record buffer was eliminated. This allowed for “some data loss whenever there was an overflow of data.”<sup>45</sup> EchoStar contended this data loss “compromised performance in order to avoid infringement.”<sup>46</sup> It also argued that it had “engaged in diligent, good faith efforts to comply with the injunction and had an objectively reasonable basis to

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<sup>37</sup> See *TiVo III*, 640 F. Supp. 2d at 857.

<sup>38</sup> *Id.* at 858.

<sup>39</sup> *Id.* at 857.

<sup>40</sup> *TiVo V*, 2011 WL 1486162 at \*4.

<sup>41</sup> *Id.*

<sup>42</sup> *TiVo III*, 640 F. Supp. 2d at 864.

<sup>43</sup> *Id.*

<sup>44</sup> *Id.* at 865–66.

<sup>45</sup> *TiVo V*, 2011 WL 1486162 at \*4.

<sup>46</sup> *Id.* at \*5.

believe that it was in compliance.”<sup>47</sup> By now, EchoStar had “escaped” the injunction for over two years and had “gained millions of customers” since the injunction issued.<sup>48</sup>

### **More Than a Colorable Difference?**

While the road to Hell may be paved with good intentions, whether a party intended to comply with an injunction is not relevant when deciding whether the party violated the injunction.<sup>49</sup> EchoStar may have “genuinely believed” its design-around efforts were successful.<sup>50</sup> That belief did not matter. All that mattered was whether EchoStar’s redesigned product when compared to its infringing product was “more than a colorable difference.”

The “more than a colorable difference” standard used to be decided by determining whether “substantial open issues [existed] with respect to [continued] infringement” following the design-around effort.<sup>51</sup> However, the Federal Circuit concluded this infringement-based understanding misled district courts and diverted attention away from the defendant’s conduct. Therefore, the Court held the question should be “whether the newly accused product is *so different* from the product previously found to infringe that it raises *a fair ground of doubt* as to the wrongfulness of the defendant’s conduct.”<sup>52</sup> In deciding whether a difference is “so different,” the court must (1) focus on the elements of the already-found-to-be-infringing product which were found to satisfy the requirements of the claims [*e.g.*, the parsing and automatic flow control steps] and (2) determine whether the modification made to those elements was significant [*e.g.*, the use of statistical estimation and the elimination of the record buffer].<sup>53</sup> The nature of the product and whether the modification would have been “obvious” to a person of ordinary skill are relevant in deciding significance, as is the policy that legitimate design-around efforts should be encouraged.<sup>54</sup> If the differences are significant, then the redesigned product is more than colorably different from the infringing one and the defendant is not in contempt.

The district court concluded that EchoStar’s changes were not more than a colorable difference and EchoStar was in contempt of the injunction. The court imposed sanctions of nearly \$90 million and awarded additional damages of approximately \$110 million for EchoStar’s continued infringement.<sup>55</sup> Although EchoStar had changed start code detection with statistical estimation, it continued to use a “PID filter” for “analyzing the incoming data stream and selecting the appropriate packets of data associated with a program or channel selected by the viewer.”<sup>56</sup> EchoStar earlier had admitted that the PID filter “performs a type of parsing.”<sup>57</sup> With regard to the buffering change, “when EchoStar’s modified DVR’s were tested, 99% of them never exhibited any data loss. In the small percent that did exhibit data loss, that loss was extremely

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<sup>47</sup> *Id.* at \*5.

<sup>48</sup> *TiVo III*, 640 F. Supp. 2d at 875.

<sup>49</sup> *See TiVo V*, 2011 WL 1486162 at \*6.

<sup>50</sup> *See TiVo III*, 640 F. Supp. 2d at 665–66 (taking EchoStar’s beliefs at face value).

<sup>51</sup> *See TiVo V*, 2011 WL 1486162 at \*7 (quoting *KSM Fastening Sys. Inc. v. H.A. Jones Co.*, 776 F.2d 1522, 1532 (Fed. Cir. 1985)).

<sup>52</sup> *Id.* at \*7 (internal quotations omitted) (emphasis added).

<sup>53</sup> *See id.*

<sup>54</sup> *See id.* at \*8.

<sup>55</sup> *TiVo, Inc. v. Dish Network* (hereinafter *TiVo IV*), 665 F. Supp. 2d 661, 666.

<sup>56</sup> *TiVo III*, 640 F. Supp. 2d at 865.

<sup>57</sup> *See TiVo V*, 2011 WL 1486162 at \*8.

small, in the range of 0.0002%.”<sup>58</sup> EchoStar admitted that “such data loss would occur in both infringing products and modified products.”<sup>59</sup>

The Federal Circuit was not so certain there was not a significant difference. Because the district court focused on the PID filter, it did not evaluate the statistical estimation feature to determine whether it was significantly different from the start code detection feature. On that basis, the Court held that EchoStar was entitled to a new infringement proceeding.<sup>60</sup> No mention was made of the district court’s buffering analysis. However, even if the district court was correct about the buffering not being more than a colorable difference, if parsing was, it would be enough for EchoStar to avoid infringement.

### **A Last Ditch Effort**

EchoStar argued that it should not be held in contempt of the Disablement Provision because the provision was not “sufficiently specific and definite.”<sup>61</sup> The provision was also too broad, and therefore unlawful, because it covered non-infringing design-arounds, an activity that courts should encourage.<sup>62</sup> For example, the provision, which required EchoStar to “disable the DVR functionality . . . in . . . the Infringing Products, did not give EchoStar the “slightest hint” that the provision included “non-infringing functionality that had yet to be invented.”<sup>63</sup> Further, the provision required “sentence diagramming” in order to understand it.<sup>64</sup> Because the first sentence of the provision addressed disabling the DVR functionality of Infringing Products already-placed in customers’ homes, the reference to Infringing Products in the second sentence of the provision, which addressed disabling DVR functionality in new placements, could not mean the same thing as in the first sentence. In this second sentence, “Infringing Products” meant “infringing functionality.”

The Federal Circuit found this interpretation tortured, “self-serving,” and running contrary to the provision’s “most natural reading.”<sup>65</sup> The Disablement Provision dealt separately with receivers already placed in customer’s homes (“in all but 192,708 units of the Infringing Products that have been placed with an end user or subscriber”) and new placements not yet in customer homes (“in any new placements of Infringing Products”).<sup>66</sup> In regards to the already-placed receivers, EchoStar never disabled a single one. Instead, it “unilaterally decided that

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<sup>58</sup> *TiVo III*, 640 F. Supp. 2d at 870.

<sup>59</sup> *Id.* at 871.

<sup>60</sup> *TiVo V*, 2011 WL 1486162 at \*9. The fact that EchoStar’s statistical estimation feature was the subject of a U.S. patent played no role in the Court’s decision. *See id.* at n. 3.

<sup>61</sup> *See id.* at \*9 (quoting *Granny Goose Foods, Inc. v. Teamsters*, 415 U.S. 423, 445 (1974)).

<sup>62</sup> *See id.* at \*13. The dissenting judges thought the statistical estimation feature was more than substantially different from the start code feature because it “was not earlier viewed by TiVo as being capable of performing the required function.” *See id.* at \*23 (Dyk, J., dissenting-in-part).

<sup>63</sup> *See id.* at \*9.

<sup>64</sup> *TiVo V*, 2011 WL 1486162 at \*10.

<sup>65</sup> *Id.* at \*11–12.

<sup>66</sup> The dissent took exception to treating the already placed units and new placements as part of the same Disablement Provision. Rather, it considered the sentence which dealt with disabling DVR functionality in already placed receivers as the Disablement Provision. The other sentence, which dealt with new placements, was more accurately labeled the “Enablement Provision.” This provision stated that DVR functionality “shall not be enabled” in new placements. Not enabling is different than disabling. *See TiVo V*, 2011 WL 1486162 at \*16–17 (Dyk, J., dissenting-in-part). Because EchoStar could have reasonably interpreted the injunction in this way, holding it in contempt is improper. *See id.* at \* 21, 23.

downloading modified software was sufficient to comply with the . . . injunction.”<sup>67</sup> Further, the injunction defined “DVR functionality” as “*all* storage to and playback from a hard disk drive of television data.” All means all DVR functionality, infringing or not.<sup>68</sup>

More importantly, EchoStar waived all of its arguments regarding the injunction because it had been given “ample notice of the proposed terms of the injunction as well as a full and fair opportunity to litigate the issue.”<sup>69</sup> Yet, it never appealed the injunction until it was dragged into court once again by TiVo.<sup>70</sup> The “time to appeal an injunction is when it is handed down, not when a party is found to be in contempt.”<sup>71</sup> The Court affirmed the \$90 million in sanctions levied by the district court.

### **All This and Then . . .**

The question of whether EchoStar’s statistical estimation method is more than a colorable difference when compared to the infringing start code detection feature will forever remain unanswered. EchoStar (and maybe TiVo, too) had had enough. In the wake of the Federal Circuit’s ruling, EchoStar agreed to pay TiVo \$500 million to settle the patent infringement suit.<sup>72</sup> As part of the settlement, TiVo will license its technology to EchoStar and Dish Network, and EchoStar will license to TiVo certain DVR-related patents.

### **Coloring Lessons<sup>73</sup>**

Whether a party is infringing a patent or complying with a court-ordered injunction is a fact-intensive inquiry, and this case was arguably a close call.<sup>74</sup> Nonetheless, EchoStar’s conduct and the Federal Circuit’s decision holds lessons for those involved in design-around efforts. First, the amount of time, effort and money invested in a design-around effort might increase the likelihood of a successful design-around but ultimately not matter from a legal point of view. Nor does a good faith attempt or belief that the design-around was successful. Whether a patent has been infringed only depends upon the actual design compared to the patent or, in the case of an injunction, the already-found-to-be infringing design and the new design.

Second, the fact that all or a portion of a re-designed product or system has its own patent protection does not mean that it does not infringe someone else’s patent. The patent right is only the right to exclude others from making or using the patented item. It is not the right to “make” the patented item. EchoStar’s statistical estimation method may be patented, but the patented method was used as part of a DVR software system protected by TiVo’s patent.

Third, the re-design focus of an already-found-to-be infringing design should be placed on those elements of the design on which infringement was decided. If one or more of those elements can

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<sup>67</sup> *Id.* at \*11.

<sup>68</sup> *Id.* at \*13.

<sup>69</sup> *Id.* at \*12.

<sup>70</sup> See *TiVo III*, 640 F. Supp. 2d at 859 (noting at “no point during the appellate process did EchoStar challenge the language or scope” of the injunction).

<sup>71</sup> *TiVo V*, 2011 WL 1486162 at \*13 (citing *Maggio v. Zeitz*, 333 U.S. 56, 69 (1948)).

<sup>72</sup> Reuters, *Dish and EchoStar Settle Patent Dispute with TiVo*, The New York Times (May 2, 2011), [http://www.nytimes.com/2011/05/03/technology/03patent.html?\\_r=1&pagewanted=print](http://www.nytimes.com/2011/05/03/technology/03patent.html?_r=1&pagewanted=print) (accessed May 30, 2011).

<sup>73</sup> THIS ARTICLE PROVIDES LEGAL INFORMATION NOT LEGAL ADVICE FOR THE READER’S SPECIFIC FACTS AND CIRCUMSTANCES. PLEASE CONSULT WITH COMPETENT COUNSEL BEFORE ACTING UPON ANY OF THE INFORMATION PRESENTED HERE.

<sup>74</sup> See n. 56, *supra*.

be eliminated in the new design, or if some “non-obvious” substitution can be implemented, then it is more likely than not that the differences are significant and the new design will be judged more than colorably different than the previous design. In a lot of ways, the approach which should be taken to avoid continued infringement is a lot like the approach which should be taken to avoid trouble in the first place.<sup>75</sup>

Fourth, intellectual property counsel should be involved in design reviews. Recall that EchoStar never obtained an infringement opinion on its initial, willfully infringing design.<sup>76</sup> This fact did not weigh in its favor, and neither did the fact that it never disclosed to the district court its redesign effort as it was occurring. Perhaps this happened because EchoStar had a lot of financial incentive to beg forgiveness rather than ask permission. This leads to the final lesson.

Fifth, sometimes from a management perspective the potential economic benefits of making and selling a potentially infringing product far outweigh any perceived risk of actual infringement and resulting damages awards. In the 15-month period following the Federal Circuit’s ruling that TiVo’s software claims had been infringed (and the stay was lifted), EchoStar made about \$975 million in DVR profit.<sup>77</sup> A \$100 million here and a \$100 million there and soon top management apparently decided a lengthy infringement battle with the patent owner was just one more cost of doing business. When those kinds of decisions are made, the only ones guaranteed of experiencing a “colorable difference” are the attorneys.

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### About the Author

**Paul E. Rossler** has an extensive background in intellectual property and engineering. In 1984 he received his bachelor of science in industrial engineering from the GMI Engineering & Management Institute (formerly General Motors Institute). He went on to receive his master’s degree and Ph.D. in industrial engineering from Virginia Tech before completing his juris doctorate at the University of Tulsa, where he graduated with highest honors. Prior to practicing law, Paul served on the engineering faculty at Kettering University and Oklahoma State University. At Oklahoma State, he taught in and directed the graduate degree program in Engineering & Technology Management, a program intended for practicing engineers, scientists and technologists. He continues to teach engineering law and engineering management courses at Oklahoma State University as an adjunct faculty member. Paul is a member of the Oklahoma Bar, is admitted to practice before the U.S. Patent and Trademark Office, and is a registered professional engineer in Michigan and Oklahoma. He can be reached by email at [prossler@gablelaw.com](mailto:prossler@gablelaw.com).

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<sup>75</sup> See Paul E. Rossler & Craig Fitzgerald, [WhatsUpinIP.com](http://WhatsUpinIP.com), *Honest, Mom, I Read It for the Articles, Not the Pictures: Finding Your Way Through (and Maybe Around) a Patent* (May 11, 2011) (also available at IP Frontline, May 30, 2011).

<sup>76</sup> See n. 13, *supra*.

<sup>77</sup> See *TiVo IV*, 665 F. Supp. 2d at 663.