

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.

On Appeal from the United States District Court for the
Eastern District of Texas in Case No. 2:04-CV-01

**BRIEF OF AMICUS CURIAE FEDERAL TRADE COMMISSION
ON REHEARING *EN BANC*
SUPPORTING NEITHER PARTY**

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15 U.S.C. §§ 41 et seq.	1
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MISCELLANEOUS

11A Charles Alan Wright, Arthur R. Miller & Mary Kay Kane, Federal Practice and Procedure § 2960 (2d ed. 1995). 8, 17

DOJ & FTC, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* (April 2007), www.ftc.gov/reports/innovation/P040101PromotingInnovationandCompetitionrpt0704.pdf. 1

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INTEREST OF THE AMICUS CURIAE

The Federal Trade Commission (“FTC” or “Commission”) is an independent federal agency, charged with enforcing the antitrust laws, promoting the efficient function of the marketplace, and protecting consumer welfare. 15 U.S.C. §§ 41 et seq. The FTC has had substantial experience addressing restraints on competition involving patents and other forms of intellectual property and has developed considerable expertise regarding the legal and policy issues implicated in shaping the proper balance between antitrust and intellectual property laws.¹

At issue in this case are the circumstances under which summary contempt proceedings are appropriate to determine infringement when an adjudicated infringer redesigns its product in an effort to avoid infringement. In crafting the applicable standards, the Court must strike a balance among the competing interests of the patent owner, who has already obtained a favorable judgment, the interests of the adjudicated infringer who seeks to “design around” the patent, as

¹ See, e.g., DOJ & FTC, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* (Apr. 2007), www.ftc.gov/reports/innovation/P040101PromotingInnovationandCompetitionrpt0704.pdf (“2007 Innovation Report”); Federal Trade Commission, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy*, 21-22, 50 (Oct. 2003), www.ftc.gov/os/2003/10/innovationrpt.pdf (“2003 IP Report”); DOJ & FTC, *Antitrust Guidelines for Collaborations Among Competitors* (Apr. 2000) www.ftc.gov/os/2000/04/ftcdojguidelines.pdf (“Competitor Collaboration Guidelines”); DOJ & FTC, *Antitrust Guidelines for the Licensing of Intellectual Property* (Apr. 1995) www.ftc.gov/bc/0558.pdf (“Antitrust/IP Licensing Guidelines”).

well as the interests of the courts in curtailing burdensome litigation. Of particular interest to the FTC are (1) the recognized procompetitive benefits of design-arounds, which are a source of innovation and competition and which the summary contempt standard will directly affect, and (2) the recognized procompetitive effects of patents, which can be an innovator’s principal line of defense against the market power of entrenched incumbents. In filing this amicus brief, the Commission seeks to ensure that any ruling in this case protects the “complementary” goals that Congress established in the patent and antitrust laws—specifically, to “promote innovation and competition.” *Zenith Elecs. Corp. v. Exzec, Inc.*, 182 F.3d 1340, 1352 (Fed. Cir. 1999).

ISSUES PRESENTED ON REHEARING EN BANC

The Court’s May 14, 2010 Order sets out four questions. Generally speaking, the first two questions seek to delimit the proper standards for triggering a summary contempt proceeding, as opposed to a new plenary infringement trial, in circumstances when a company elects to design around a patent after facing an injunction for infringement. The third question explores the proper standards for finding a party in contempt once it has been determined that summary contempt proceedings are proper. The fourth question concerns the propriety of holding a party in contempt when there is ambiguity as to the scope of the injunction.

The FTC's sole objective in this filing, drawing upon its expertise and experience in enforcing the antitrust laws, is to shed light on the extent to which competition considerations can and should inform this Court's analysis of the first three en banc questions. The FTC's brief proceeds in two parts. First, the FTC discusses the extent to which patent remedies generally, and summary contempt proceedings specifically, can undermine a party's incentive to engage in pro-competitive design-arounds, while also noting that injunctions, where warranted, also need to be enforceable. Second, focusing on the first three questions, the FTC discusses how the Federal Circuit can craft a contempt standard in such a way as to promote – rather than eviscerate – these incentives. ²

ARGUMENT

The FTC submits this amicus brief in light of the implications that the Court's decision could have (1) for companies who elect to design around a patent after facing an injunction at the conclusion of a patent trial, and (2) for patentees who are entitled to an enforceable injunction after such a trial, upon making the proper equitable showing. Making summary contempt proceedings and contempt sanctions too easily available, as opposed to providing the opportunity for a new trial on the merits, could dampen incentives for follow-on innovation to the detriment of competition thereby expanding a patent holder's rights beyond the

² The Commission takes no position on the specific facts of this case.

patent's exclusionary scope and chilling innovation. Simply put, the greater the assurance that a design-around product will get its day in court in appropriate circumstances—whether the design-around is the first, or second, bite at the apple—the greater the incentives to innovate and encourage entry. At the same time, enforceable injunctions can also be an important prerequisite to innovation and entry.

I. THE STANDARD GOVERNING CONTEMPT PROCEEDINGS DIRECTLY AFFECTS A FIRM'S INCENTIVE TO DESIGN AROUND A VALID PATENT

As this Court has acknowledged, rules that govern patent remedies implicate the intersection between a patent holder's intellectual property rights and a potential competitor's incentives to innovate. *See, e.g., State Indus. Inc. v. A.O. Smith Corp.*, 751 F.2d 1226, 1235-36 (Fed. Cir. 1985); *Westvaco Corp. v. Int'l Paper Co.*, 991 F.2d 735 (Fed. Cir. 1993). This intersection arises because of the power a patent remedy has to implicitly expand a patent's exclusionary scope: the more far-reaching a patent holder's potential remedy, the less likely firms are to risk subjecting themselves to that remedy and to engage in the innovation needed to bring their products to market. Patent remedies that are too far reaching therefore can potentially allow a patent holder to extract an expanded profit by chilling innovation and eliminating potential competition in a realm that, as a matter of law, may be beyond the scope of the patent. In this vein, the FTC

observed nearly 15 years ago that “[t]he scope of protection afforded by intellectual property law influences firms’ capabilities and incentives to innovate. While it is important to maintain adequate incentives for initial innovation, overbroad intellectual property protection may constrain follow-on innovation.” Federal Trade Commission, *Anticipating the 21st Century: Competition Policy in the New High-Tech Global Market Place, A Report by Federal Trade Commission Staff*, Ch. 8 at 12 www.ftc.gov/opp/global/report/gc_v1.pdf (May 1996).³

Consistent with these observations, the Federal Circuit has long recognized the potential overly broad anticompetitive effect of patent remedies. In one of its earliest cases, *State Indus. Inc. v. A.O. Smith Corp.*, 751 F.2d at 1235-36, the Federal Circuit explained that “keeping track of a competitor’s products and designing new and possibly better or cheaper functional equivalents is the stuff of

³ In 2003, the FTC held hearings that, among other things, considered the extent to which the patent system advances competition and economic welfare by incentivizing design-around innovation. 2003 IP Report Ch. 2 at 17, 21. There was a variety of testimony on this issue. There was testimony that a “significant benefit of the patent system is its role in directing R&D away from imitation by forcing competitors to design around existing patents” which suggested that, over the long run, a design around “encourages greater technological progress.” *Id.* at Ch. 2 at 21. There was also testimony that in some contexts broad patents or a patented industry standard may make design around “technically” or “economically impossible,” while in other contexts design around may “add little value.” *Id.* at 21-22. “Without a clear basis for assessing the net-value of design around activity,” the FTC observed that it was “difficult” to reach a general conclusion about whether patents improved competition and welfare by incentivizing economically-efficient design-around innovation. *Id.* at 22.

which competition is made and is supposed to benefit the consumer.” Recognizing that “[o]ne of the benefits of a patent system is its so-called ‘negative incentive’ to ‘design around’ a competitor’s products, even when they are patented, thus bringing a steady flow of innovations to the marketplace,” the Court limited the availability of punitive damages to claims of willful infringement, reasoning that infringement remedies can function as a deterrent to design-arounds. *Id.* at 1236 (noting that “[i]t [designing around] should not be discouraged by punitive damage awards except in cases where conduct is so obnoxious as clearly to call for them”).

More recently, in *Westvaco Corp. v. International Paper Co.*, 991 F.2d 735, 746 (Fed. Cir. 1993), the Federal Circuit reiterated this position when it rejected a patent holder’s claim of willful infringement, finding that “Westvaco did not copy IPC’s product, but instead attempted to design around IPC’s product,” including specific structural changes that “Westvaco’s outside patent counsel deemed . . . as adequate to avoid infringement.” Although Westvaco’s design around attempt was unsuccessful and Westvaco was found to have infringed the patent, the Federal Circuit refused to award punitive damages in the face of a good faith design around effort, again noting that “[d]esigning or inventing around patents to make new inventions is encouraged.” *Id.* at 745 (quoting *London v. Carson Pirie Scott & Co.*, 946 F.2d 1534, 1538 (Fed. Cir. 1991)).

The contempt standard now before the Federal Circuit— much like the standard for awarding punitive damages for infringement in *State Industries* and *Westvaco*—is inherently bound up with the incentives that potential competitors have to innovate. As this Court has acknowledged, civil contempt is a “potent weapon,” *KSM Fastening Sys., Inc. v. H.A. Jones Co., Inc.*, 776 F.2d 1522, 1526 (Fed. Cir. 1985), and a “severe remedy,” *id.* at 1525 (quoting *Cal. Artificial Stone Paving Co. v. Molitor*, 113 U.S. 609, 618 (1885)). “[T]he advantages of [a patent holder] proceeding on a motion to hold his adversary in contempt are substantial.” 776 F.2d at 1524. An accused infringer loses significant substantive and procedural rights when it enters a contempt proceeding, including the opportunity to litigate issues of claim construction,⁴ the opportunity to introduce live evidence through a full plenary trial as opposed to through affidavits and exhibits,⁵ and the

⁴ *Additive Controls & Measurement Sys. v. Flowdata, Inc.*, 154 F.3d 1345, 1350 (Fed. Cir. 1998). The Commission submits that the determination of whether these issues and other issues remain “open” in a contempt proceeding should be controlled, as *KSM* suggested, by principles of claim and issue preclusion. *KSM*, 776 F.2d at 1532 (noting that a court should “utilize principles of claim and issue preclusion (*res judicata*) to determine what issues were settled by the original suit and what issues would have to be tried”).

⁵ *KSM*, 776 F.2d at 1524 (“Contempt proceedings are generally summary in nature and may be decided by the court on affidavits and exhibits and without the formalities of a full trial, although the movant bears the heavy burden of proving violation by clear and convincing evidence.”).

constitutional right to a jury trial.⁶ Moreover, as is the case here, the accused infringer risks additional damages for continued infringement as well as any penalties that a Court may award in conjunction with its determination that the infringer should be held in contempt. *TiVo Inc. v. Dish Network Corp.*, 655 F. Supp. 2d 661, 666 (E.D. Tex. 2009) (awarding TiVo \$206.6 million following the finding of contempt, “includ[ing] approximately \$110 million in compensation . . . and approximately \$90 million in sanctions”).

The threat of this severe remedy can deter innovation in at least three respects. First, it can cause firms to avoid design arounds altogether. *See generally State Indus. Inc., supra* (discussing the deterrent effect of remedies on design arounds). Second, it can cause firms to engage in overbroad design arounds that create less competition for the patented product because the design-around product is more different from the patentee’s product than it needs to be. *See United Carbon Co. v. Binney & Smith Co.*, 317 U.S. 228, 236 (1942) (stating, in the context of uncertainty over infringement, that a “zone of uncertainty which enterprise and experimentation may enter only at the risk of infringement claims would discourage invention only a little less than unequivocal foreclosure of the

⁶ *Int’l Union v. Bagwell*, 512 U.S. 821, 827(1994) (explaining that in civil contempt proceedings a jury trial is not required); 11A Charles Alan Wright, Arthur R. Miller & Mary Kay Kane, *Federal Practice and Procedure* § 2960, at 379-80 (2d ed. 1995) (there is no constitutional right to a jury in civil contempt proceedings).

field.”). Third, patent holders can use the threat of summary contempt proceedings to extract exorbitant licensing fees, thereby increasing the ultimate cost to consumers. *See eBay, Inc. v. MercExchange*, 547 U.S. 388, 396 (2006) (Kennedy, J., concurring) (observing that in some cases firms “use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees” and noting that “[f]or these firms, an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent”) (citing 2003 IP Report Ch. 3 at 38-39)).

The mere threat of a summary civil contempt proceeding therefore can deter design arounds by inhibiting rather than fostering innovation and competition and, as a result, undermining the strong public interest in encouraging redesigns. *See WMS Gaming Inc. v. Int’l Game Tech.*, 184 F.3d 1339, 1355 (Fed. Cir. 1999) (“patent law encourages competitors to design or invent around existing patents”); *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 828 (Fed. Cir. 1992) (observing that design-arounds spur innovation and promote competition, which benefit consumers).

Of course, this is not an argument for adopting a standard so lenient toward the alleged infringer that an injunction becomes, in effect, unenforceable. Just as patents of doubtful validity or claiming an unjustifiably broad scope can be used to

inhibit competition, so too can a meritless claim of design-around be improperly used to entrench an incumbent's position and deter innovative entry. The point is that, in crafting a standard, this Court should be cognizant of the potential anticompetitive effects of errors in either direction.

II. IN ADOPTING A CONTEMPT STANDARD, THE FEDERAL CIRCUIT SHOULD PROTECT FIRMS' INCENTIVES TO ENGAGE IN DESIGN AROUNDS AND SHOULD NOT ADOPT A RULE THAT WILL CHILL PROCOMPETITIVE BEHAVIOR

Given the extent to which the contempt standard directly affects firms' incentives to engage in procompetitive innovation and design arounds, the FTC offers three observations in response to the questions posed in the Federal Circuit's en banc order regarding how the summary contempt standard could potentially protect these ends.

1. As an overarching principle, the FTC asks the Federal Circuit to bear in mind, from a competition perspective, the benefit of a contempt standard that is predictable, administrable, and provides clear guidance to the business community.

That is the teaching of the Supreme Court's most recent cases in the antitrust context, where the Court has "repeatedly emphasized the importance of clear rules in antitrust law." *Pac. Bell Tel. Co. v. linkLine Commc'ns, Inc.*, 129 S. Ct. 1109, 1120-21 (2009).⁷

⁷ See also *Town of Concord v. Boston Edison Co.*, 915 F.2d 17, 22 (1st Cir. 1990) (Breyer, J.) (stating that antitrust rules "must be clear enough for lawyers to

The Court’s demand for clear rules in the antitrust context is not merely a function of notice and fairness, but is directly connected to innovation and competition: in the Court’s view, in the competition context, absent clear notice as to what conduct will trigger liability, firms are likely to eschew procompetitive conduct.⁸ The policies animating these rules are particularly applicable to the contempt context. If the standards for triggering summary contempt proceedings or a finding of contempt are ambiguous, those standards could cause adjudged infringers to avoid design-arounds altogether or engage in overbroad design-arounds for fear of engaging in further anticompetitive conduct and triggering a summary proceeding. Similarly, ambiguity in the other direction could cause a new entrant with a valuable patent to strike a deal with a dominant incumbent rather than gamble that an injunction will protect it if it offers strong competition

explain them to clients”); *Barry Wright Corp. v. ITT Grinnell Corp.*, 724 F.2d 227, 234 (1st Cir. 1983) (Breyer, J.) (noting that “law is an administrative system the effects of which depend upon the content of rules and precedents only as they are applied by judges and juries in courts and by lawyers advising their clients”).

⁸ To be sure, as the Supreme Court recognized in *KSR Int’l v. Teleflex Inc.*, 550 U.S. 398, 421 (2007), the Federal Circuit should not displace the district court’s discretion with “[r]igid preventive rules that deny factfinders recourse to common sense.” Nevertheless, given the competitive benefits of a rule that provides fair notice to the parties of the type of conduct likely to trigger contempt, the Commission urges the Court to strike a balance between, on the one hand, preserving a role for the district court’s common sense assessment of the facts, while, on the other hand, providing courts and the business community with as much guidance as possible as to what factors a court will consider in analyzing contempt in the intellectual property context.

with a new, disruptive technology. All of these unintended consequences would be harmful to consumers.⁹

The need for a clear and administrable rule should take into account the extent to which this Court’s decision will have effects outside of the contempt context. In *Forest Labs., Inc. v. Ivax Pharms., Inc.*, 501 F.3d 1263 (Fed. Cir. 2007), for example, the Federal Circuit rejected a broad injunction following a finding of infringement, holding that the standard for the appropriate scope of an injunction should be tied to the contempt standard. *Id.* at 1271 (quoting *Int’l Rectifier Corp. v. IXYS Corp.*, 383 F.3d 1312, 1316 (Fed. Cir. 2004) for the holding that “the only acts [an] injunction may prohibit are infringement of the patent by the adjudicated [products] and infringement by [products] *not more than colorably different* from the adjudicated [products]”) (emphasis added); *see also Oakley, Inc. v. Sunglass Hut Int’l*, 316 F.3d 1331, 1346 (Fed. Cir. 2003) (using contempt standard to define bounds of preliminary injunction). If an adjudged

⁹ Predictability and administrability are especially important with respect to rules such as those governing the propriety of civil contempt in the intellectual property context. Such proceedings involve private, rather than public, enforcement of a decree and can lead to the imposition of substantial awards to compensate injured parties. The threat of these awards alone can impose a chilling effect if the rules governing liability are unclear. As a majority of the Commission noted in opposing the 2008 Report of the Department of Justice on Single Firm Conduct (which the Department has since withdrawn), somewhat different considerations can apply where public authorities, rather than private litigants, apply standards in remedial contexts that are prospective, rather than backward-looking, in nature.

infringer can plausibly claim that an injunction’s incorporation of the contempt standard makes the injunction too vague to provide guidance, the adjudged infringer might argue that the injunction’s ambiguity should redound to its benefit and should not be construed broadly.¹⁰ Such injunctions will not benefit anyone other than, of course, the adjudged infringer.

The Federal Circuit’s rule is also likely to invite further confusion (for the business community and the courts) if it reintroduces the *substantive* “colorability” standard that it rejected in *KSM*. In *KSM*, this Court held that the threshold question for determining whether contempt proceedings are appropriate should be governed by a *procedural* analysis that looks at whether “substantial new issues [must] be litigated to determine infringement.” 776 F.2d at 1531 (noting that “we conclude that the procedural analysis . . . should be adopted as the general rule”). Since *KSM*, however, that standard has been read in some cases as imposing a threshold analysis that looks at whether there is “more than a colorable difference”

¹⁰ As the Supreme Court and Federal Circuit have repeatedly emphasized, in light of the “serious penalties [that] can befall those who are found to be in contempt of court injunctions,” the rule is that “those against whom an injunction is issued should receive fair and precisely drawn notice of what the injunction actually prohibits.” *Granny Goose Foods, Inc. v. Bhd. of Teamsters & Auto Truck Drivers*, 415 U.S. 423, 444 (1974); *see also Abbott Labs. v. TorPharm, Inc.*, 503 F.3d 1372, 1383 (Fed. Cir. 2007) (citing *Ford v. Kammerer*, 450 F.2d 279, 280 (3d Cir. 1971) for the rule that injunctions must be clear and unambiguous on their face and any “ambiguities and omissions in orders redound to the benefit of the person charged with contempt”).

between the adjudged infringer’s proposed design around and the adjudged infringing product. The problem is that the “more than colorable difference” standard can be confused with the *substantive* analysis that courts apply in other contexts – including, foremost summary judgment, where the analysis turns on whether the evidence is more than “merely colorable.” See *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 249-50 (1986) (holding that if “the evidence [opposing summary judgment] is merely colorable, or is not significantly probative” then summary judgment may be granted) (internal citation omitted). The procedural question of whether contempt is proper (because, applying *res judicata* principles, substantial open issues remain) and the substantive question of whether summary judgment is proper (because the evidence conclusively proves or disproves liability) are not the same; the Court should therefore avoid adopting language that could suggest a substantive inquiry at the threshold stage.

2. The Court has asked “what weight should be given to the infringer’s efforts to design around the patent and its reasonable and good faith belief of noninfringement by the new device, for a finding of contempt?” Order, *TiVo v. EchoStar*, No. 2009-1374 (May 14, 2010). The FTC offers two observations on this question.

First, the Court should hold that good faith design-around efforts do not constitute a defense to a claim of contempt. The purpose of civil contempt is not to

punish a contemnor for willful conduct, but is instead “to enforce compliance with an order of the court or to compensate losses or damages sustained by reason of noncompliance.” *McComb v. Jacksonville Paper Co.*, 336 U.S. 187, 191 (1949). Thus, since civil contempt is remedial in nature, evidence of good faith is irrelevant to the contempt analysis. *See, e.g., Harley-Davidson, Inc. v. Morris*, 19 F.3d 142, 148-49 (3d Cir. 1994) (refusing to find a good faith defense to civil contempt); *NRLB v. Sw. Bell Tel. Co.*, 730 F.2d 166, 173-74 (5th Cir. 1984) (same); *TWM Mfg. Co. v. Dura Corp.*, 722 F.2d 1261, 1273 (6th Cir. 1983) (same); *Vuitton et Fils S.A. v. Carousel Handbags*, 592 F.2d 126, 128 n.2 (2d Cir. 1979) (same). The policies unique to the patent context do not offer any reason to depart from that well-established rule.

Second, the Court should hold that, in a patent contempt proceeding, a district court may take into account evidence of good faith in determining the size and scope of any sanctions that are imposed on top of any compensatory award.¹¹ Although evidence of good faith is not relevant to the size and scope of sanctions in the general civil contempt context, the FTC believes that such a rule best effectuates the competing text and policies of civil contempt law and the Patent

¹¹ In this case, the district court awarded TiVo \$206.6 million following the finding of contempt, “includ[ing] approximately \$110 million in compensation . . . and approximately \$90 million in sanctions.” *TiVo Inc. v. Dish Network Corp.*, 655 F. Supp. 2d 661, 666 (E.D. Tex. 2009).

Act.

As noted, the theory behind sanctions in the general civil contempt context is to enforce compliance and/or make the plaintiff whole. *McComb*, 336 U.S. at 191. There are no countervailing considerations that weigh in the district court's application of its equitable discretion. That is arguably not the case in the patent context. To the contrary, as discussed *supra*, the patent laws foster innovation and competition by, among other things, incentivizing design-arounds. It is arguable that imposing prohibitive sanctions on an adjudged infringer that makes a substantial investment in a good faith effort to redesign around a valid patent on top of whatever compensation is needed to make the plaintiff whole is inconsistent with those aims. The FTC therefore suggests that the way to strike the optimal balance between the competing aims of civil contempt law and patent law is to hold that a district court can consider evidence of a good faith effort to engage in a design-around in determining any sanctions over and above any compensatory relief. Such a rule would limit the threat of sanctions that unnecessarily chills innovation and competition.

3. This Court has also asked “[w]hat burden of proof is required to establish that a contempt proceeding is proper” and “[w]here a contempt proceeding is proper, . . . what burden of proof is on the patentee to show that the newly accused device infringes”? Order, *TiVo v. EchoStar*, No. 2009-1374 (May

14, 2010).

In response to these questions, the FTC recommends that the Court should require that a patentee prove both the elements needed to trigger contempt proceedings *and* infringement during those proceedings by clear and convincing evidence. *See, e.g., Preemption Devices, Inc. v. Minn. Mining & Mfg. Co.*, 803 F.2d 1170, 1172-73 (Fed. Cir. 1986); *Arbek Mfg., Inc. v. Moazzam*, 55 F.3d 1567, 1569 (Fed. Cir. 1995).

As to the application of the clear and convincing standard to the elements in an *infringement analysis*, this Court has already held in *KSM* that the clear and convincing standard should apply to determine infringement during the contempt proceeding. *KSM*, 776 F.2d at 1524 (noting that in contempt proceedings, “the movant bears the heavy burden of proving violation by clear and convincing evidence”). For two reasons, there is no reason for the Court to depart from this rule. First, the clear and convincing standard of proof accords with the standard of proof in civil contempt proceedings generally, 11A Wright, Miller & Kane, Federal Practice and Procedure § 2960, at 380 (“In a civil-contempt proceeding, proof of the violation must be clear and convincing, and a bare preponderance of the evidence will not suffice.”). Second, a clear and convincing standard of proof makes doctrinal sense given the absence of the procedural protections that are available to an accused infringer in the context of a typical infringement action

(where the patent holder need only prove liability by a preponderance of the evidence).

As to the application of the clear and convincing standard to the elements needed in order to *establish that a contempt proceeding is proper*, the Commission observes that the Federal Circuit is historically unique in applying a two-prong approach. General civil contempt law does not separate the availability of the proceeding from the test for liability during that proceeding. Instead, under general civil contempt law, the movant must demonstrate by “clear and convincing evidence” that the respondent has violated the terms of a court order. *See, e.g., Latino Officers Ass’n City of N.Y., Inc. v. City of New York*, 558 F.3d 159, 164 (2d Cir. 2009); *Autotech Techs. LP v. Integral Research & Dev. Corp.*, 499 F.3d 737, 751 (7th Cir. 2007); *Parker v. Scrap Metal Processors, Inc.*, 468 F.3d 733, 739-40 (11th Cir. 2006).

The Commission suggests this Court should apply the same higher standard of proof to the threshold inquiry of whether contempt proceedings are appropriate. The threshold analysis reflects, as a practical matter, a policy judgment on the part of this Court that patent cases are unique in requiring a threshold inquiry to ensure that the threat of a contempt proceeding itself does not serve as an undesirable deterrent to innovation and competition. For such a threshold inquiry to be meaningful, the standard used in the inquiry cannot be so much lower than the

standard applied to the merits as to eviscerate the existence of a threshold inquiry altogether. Accordingly, if this Court elects to maintain the two-step analysis, the Commission recommends applying a higher standard of proof at the threshold to preserve an adjudged infringer's incentive to innovate.

CONCLUSION

For the foregoing reasons, in resolving the issues presented, the Court should bear in mind the procompetitive role played by both design-arounds and original innovators. The Court should establish a clear and easily administrable rule; recognize that good faith is not a defense to civil contempt, but may – in the patent context – be relevant in determining sanctions that are not compensatory in nature; and reaffirm that clear and convincing evidence is needed to prove contempt.

Respectfully submitted,

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CERTIFICATE OF COMPLIANCE

I certify that this brief complies with Fed. R. App. P. 32(a)(7)(B)(i) with respect to word type-volume. It contains 4744 words, excluding those portions exempted by Fed. R. App. P. 32(a)(7)(B)(iii) and Circuit Rule 32(b).

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Federal Trade Commission

August 2, 2010

CERTIFICATE OF SERVICE

I hereby certify that on August 2, 2010, I caused two copies of the Brief of Amicus Curiae Federal Trade Commission on Rehearing *En Banc* Supporting Neither Party, to be deposited in the U.S. Mail, postage prepaid, to each of the following:

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