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2009-1374

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

TIVO, INC.

Plaintiff-Appellee,

v.

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

Defendants-Appellants.

Appeal from the United States District Court for the Eastern District of Texas, Case No. 2:04-CV-01, Judge David Folsom

RESPONSE OF *AMICUS CURIÆ*
ASSOCIATION FOR COMPETITIVE TECHNOLOGY, INC.
IN SUPPORT OF PLAINTIFF-APPELLEE IN OPPOSITION OF EMERGENCY MOTION TO STAY PERMANENT INJUNCTION PENDING APPEAL

Raymond Millien
PCT LAW GROUP, PLLC
818 Connecticut Avenue NW
Suite 700
Washington, DC 20006
(202) 293-3555

Counsel for Amicus Curiæ

June 10, 2009

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UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

TIVO, INC. v. ECHOSTAR CORPORATION *et al.*,

No. 2009-1374

CERTIFICATE OF INTEREST

Counsel for *Amicus Curiæ*, Association for Competitive Technology, Inc. certifies the following:

1. The full names of every party or *amicus* represented by me are:

   Association for Competitive Technology, Inc.

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

   Not applicable

3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of *Amicus Curiæ* represented by me are:

   None

4. Association for Competitive Technology, Inc. did not appear in the trial court. Expected to appear in this Court are: Raymond Millien, Thomas H. Jackson, and H. Scott Johnson, Jr. of PCT LAW GROUP, PLLC.

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STATEMENT OF INTEREST OF AMICUS CURIÆ

Amicus Curiæ, The Association for Competitive Technology, Inc., ("ACT") respectfully seeks leave of the Court to file this brief pursuant to Rule 29(b). A motion seeking same is filed concurrently herewith.

ACT, with offices in Washington D.C. and Brussels, Belgium, is an international grassroots advocacy and education organization representing more than 3000 small and mid-size information technology firms from around the world. ACT is the only organization focused on the needs of small business innovators. ACT advocates for an environment that inspires and rewards innovation. ACT also provides resources like the Innovators Network™ website (www.innovators-network.org) to help its members leverage their intellectual assets to raise capital, create jobs and continue innovating.

ACT has a critical interest in seeing that injunctions are not rendered useless by endless stays. And, realizing that the average patent suit with high stakes such as the instant case can cost between $3-5M – a ruinous amount for most of its members, ACT respectfully submits this brief in support of a small business facing additional legal fees in the vindication of its patent rights.

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ARGUMENT

I. CONSIDERATION OF THIS BRIEF ASSURES THAT THE PRACTICAL IMPACTS AND PUBLIC POLICY IMPLICATIONS OF THIS CASE ARE TAKEN INTO CONSIDERATION

ACT acknowledges that the procedural posture of the instant case makes the filing of this *Amicus Curiæ* brief somewhat unusual. It is the instant case's procedural posture, however, that makes the filing of this brief essential. Defendants-Appellants, Echostar Corporation, Echostar DBS Corporation, Echostar Technologies Corporation, Echosphere LLC, Echostar Satellite LLC, and Dish Network Corporation (collectively, "EchoStar"), would have this Court believe that the instant case is a "routine" instance of District Court error in a patent case thus necessitating a "routine" stay pending appeal of the District Court's permanent injunction order. ACT strongly believe that this Court must consider the practical impact and the public policy implications of the instant case as they relate to how the patent system works for firms competing in the 21st century, global knowledge economy – especially small and mid-sized technology firms which are responsible for a significant portion of this nation's innovations.

The Chief Judge of this Court, addressing the issue of how the Court can make patent law better for everyone, has lamented how most briefs simply "allege conflicts in the law without real analysis beyond convenient quotes

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from past decision, which we derisively refer to as 'cite bites.' Most challenge our result more than our reasoning. Few plumb the depths of the Supreme Court precedent. *Almost none discuss practical impacts, empirical evidence or public policy*." Hon. Paul R. Michel, *Address at the Harvard Law School Conference on Intellectual Property Law* (Sept. 9, 2008) (emphasis added). ACT discusses such practical impacts and public policy implications herein.

Because ACT represents more than 3000 small and mid-size information technology firms and is the only organization focused on the needs of small business innovators, it supports Plaintiff-Appellee, TiVo, Inc. ("TiVo") in opposing EchoStar's emergency motion for a stay pending appeal of the District Court's permanent injunction order. The history of the instant case is no more than the proverbial "David versus Goliath" tale of how large companies such as EchoStar – with large litigation budgets to match – can abuse the patent legal system to the detriment of small and medium-sized firms similarly situated to TiVo when they attempt to enforce their valid intellectual property rights.[1]

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[1] *Amicus Curiæ* point out that although TiVo is a publically-traded company, it is a small business with approximately 460 employees and, since its founding in 1997, only achieved its first positive annual net income in 2008. In contrast, Dish Network and EchoStar operate as separate publicly-traded companies, and as of 2008 have approximately 28,000 combined employees and over $13B in combined annual revenue.

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In determining whether to grant a Motion for Stay pending appeal, the Court applies a four-prong test: (1) whether the stay applicant has made a strong showing that it is likely to succeed on the merits[2]; (2) whether the stay applicant will be irreparably injured absent a stay; (3) whether issuance of the stay will substantially injure the other parties interested in the proceeding; and (4) where the public interest lies. *Standard Havens Products, Inc. v. Gencor Industries, Inc.*, 897 F.2d 511, 512 (Fed. Cir. 1990)(quoting *Hilton v. Braunskill*, 481 U.S. 770, 776 (1987)). The court's objective under this test is to assess the movant's chance for success on appeal while weighing the equities as they affect the parties and the public. *Id.* at 512. ACT submits this brief to aid this Court in applying the fourth prong of the *Standard Haven* test – the public interest.

II. GIVEN THE CRUCIAL ROLE OF SMALL BUSINESS INTELLECTUAL PROPERTY TO THE U.S. ECONOMY, THE PATENT SYSTEM MUST WORK WELL FOR ALL FIRMS, NOT JUST LARGE COMPANIES WITH LARGE LITIGATION BUDGETS

In addressing how to make patent law better for *everyone* within the context of deciding an emergency motion for a stay pending appeal of a District Court's permanent injunction order, this Court should first

[2] One study has shown that the Federal Circuit has an affirmance rate of 72.3% when a district court finds a patent not invalid and infringed. *See* Matthew D. Henry and John L. Turner, *The Court of Appeals for the Federal Circuit's Impact on Patent Litigation*, 35 J. Legal Stud. 85, 103 (Jan. 2006).

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understand the important role of small and mid-sized technology firms' intellectual property to the nation's economy.[3]

According to the U.S. Small Business Administration (SBA), small businesses (*i.e.,* independent firms having less than 500 employees): represent 99.7% of all employer firms; employ about half of all private sector employees; pay nearly 45 percent of total U.S. private payroll; hire 40% of high-tech workers (such as scientists, engineers, and computer workers); produce 13 times more patents per employee than large businesses; and these patents are twice as likely as large business patents to be among the top one percent most cited. SBA, Office of Advocacy, *Frequently Asked Questions* (Sept. 2008) (available at http://www.sba.gov/advo/stats/sbfaq.pdf).

We know that in emerging technology fields (*e.g.,* IT, software, biotech and nanotech), much of today's innovation comes from small, start-up firms who have no asset other than their intellectual property. Perhaps why this is

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[3] In the discussion of "intellectual property" it is easy to lose perspective that the small and mid-sized technology firms we address have founders and other stakeholders who have invested a great deal of their lives' work to bringing their innovative products and services to market. In many instances life savings, and "friends and family" money have gone to protecting such innovations via patent filings to obtain intellectual property rights. These stakeholders see their firms as more than just providing a "job." Therefore, in addressing their "David versus Goliath" predicament we must remember the human element. After all, "[p]roperty does not have rights. People have rights." *Lynch v. Household Fin. Corp.*, 405 U.S. 538, 552 (1972).

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so was best observed by a Distinguished Lecturer of Behavioral Policy Science at the Massachusetts Institute of Technology Entrepreneurship Center when he wrote that: "[Large c]ompanies reward managers for making their numbers, not for building new businesses. Who wants to risk her bonus for an upstart technology that threatens the cash cows? Corporate R&D spends 80 percent of its time and talent on product improvements and 20 percent on really new stuff." Howard Anderson, *Why Big Companies Can't Invent*, MIT Technology Review (May 1, 2004). The basic *quid pro quo* contemplated by the Constitution and the Congress for granting a patent monopoly is the benefit derived by the public from inventors disclosing their inventions. Thus, it is this Court's duty to assure that the patent laws are applied in a manner that equally protects not only large corporate inventors with their accompanying large litigation budgets, but small business inventors who actually invent best.

III. THE PROCEDURAL HISTORY OF THIS CASE DEMONSTRATES A GOLIATHIAN EFFORT TO OUTLAST DAVID VIA AN EIGHT YEAR DELAY IN THE ADMINISTRATION OF JUSTICE AND AN ALMOST THREE YEAR STAY IN THE ENFORCEMENT OF AN INJUNCTION AGAINST ECHOSTAR

Well-heeled EchoStar has gamed the judicial system for eight years since the issuance of the single patent-in-suit, and for three years since the issuance of a permanent injunction through appeals to this Court and the

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Supreme Court, as well as forum shopping for a new trail in its home court. TiVo's U.S. Patent No. 6,233,389 (the "'389 patent") issued on May 15, 2001. Whereupon TiVo entered into good-faith discussions with EchoStar to enter into a licensing arrangement regarding EchoStar's use of the patented technology. When TiVo was met with EchoStar's reluctance to enter into such an arrangement, TiVo brought an infringement action on January 5, 2004. On August 17, 2006, the '389 patent was subsequently found valid and EchoStar was found to willfully infringe claims 31 and 61 of the '389 patent and the District Court issued its Permanent Injunction. EchoStar immediately moved this Court to stay the effect of the Injunction during EchoStar's appeal urging the impact on its customer base of the injunction and its potential loss of revenues. This Court awarded the stay.

Now, almost three years later, and after the District Court has found, during a contempt proceeding against EchoStar, that EchoStar's secretly redesigned satellite receivers continue to infringe claims 31 and 61,[4] EchoStar

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[4] "After this [District] Court entered its permanent injunction, EchoStar asked the Federal Circuit to stay the injunction during EchoStar's pending appeal. In that request, EchoStar represented that without the stay it would be unable to provide DVR service and would risk losing a significant portion of its existing or potential customers, which could cost the company $90 million per month. EchoStar never mentioned its design-around efforts to the Federal Circuit. As a result of EchoStar's representations, however, the Federal Circuit granted EchoStar's request for a stay of the injunction on October 3, 2006.

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has returned to this Court with an Emergency Motion for a Stay Pending Appeal.

EchoStar intentionally provoked the lawsuit below by not coming to terms on a reasonable commercial arrangement as early as 2001, has secretly downloaded a redesign of its software in violation of the injunction and without informing TiVo or any court for two years, and continues to willfully infringe the '389 patent. Now, once again, EchoStar urges this Court to stay the impact of a permanent injunction.

IV. IN A POST *EBAY* ENVIRONMENT, PERMANENT INJUNCTIONS AGAINST INFRINGERS ARE STILL AVAILABLE AND ANY APPLICATION OF TRADITIONAL EQUITABLE PRINCIPLES THAT RESULT IN AN AUTOMATIC RULE ARE INAPPROPRIATE

In May of 2006, the U.S. Supreme Court unanimously held that "the decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and that such discretion must be exercised consistent with traditional principles of equity, in patent disputes no less than in other cases governed by such standards." *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 394 (2006).

Later that month, EchoStar began downloading modified software into its customers' DVRs; this fact did not become known to any court until May 2008, after the appellate process had concluded." Memorandum Opinion, 2009 U.S. Dist. Lexis 46160, at *11-12 (E.D. Tex. June 2, 2009) (citations omitted).

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The are two important lessons from to be gleaned from the Supreme Court's decision in *eBay* that are relevant in the instant case.

First, *eBay* teaches us that traditional equitable principles do not permit broad classifications about plaintiffs with respect to deciding whether to grant or deny permanent injunctions. *See id.* at 393. That is, the traditional principles of equity must always be considered, and whether a patentee is a practicing entity versus a non-practicing entity, a large versus small entity, a non-for-profit organization or university versus a for-profit enterprise, or one who has licensed in the past versus one who has refused to license, cannot of course be wholly dispositive. In sum, post *eBay*, permanent injunctions remain available to patentees against those found to infringe valid and enforceable patents and where the equities so dictate. Therefore, it would not serve the public interest if the size of the plaintiff-patentee or the size of the infringer's customer base are wholly determinative factors as well.

Second, *eBay* teaches us that this Court's past jurisprudence favoring a "general rule" amounting to near automatic (if not, automatic) grants of permanent injunctions after a finding of infringement is inappropriate. Thus, from a public policy perspective, grants of emergency motions for a stay pending appeal of a district court's permanent injunction order cannot be near automatic (or automatic) either. That is, the Supreme Court's directive to

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decide the former situation consistent with traditional principles of equity must also apply to the latter situation.

V. IS A WIN NOT A WIN IN LIGHT OF ECHOSTAR'S WEAK DESIGN AROUND EFFORTS

Conspicuously, EchoStar ignores the legal and factual predicate upon which the district court based its finding of contempt. Indeed, in conclusory fashion and with feigned deference to *KSM Fastening Systems, Inc. v. H.A. Jones Company, Inc.,* 776 F.2d 1522 (Fed. Cir. 1985), EchoStar summarily avers that the district court "short-circuited" the proper analysis and erroneously failed to give credence to its "good-faith design-around." Emergency Motion p. 9, 11. However, as is readily apparent from a review of the District Court's Memorandum Opinion, EchoStar's design-around efforts were woefully short of the applicable legal standard.

In *KSM*, this Court articulated a two-prong test to determine whether a finding of contempt is appropriate for a party's violation of an injunction order. First, a court must decide if contempt proceedings are appropriate by comparing the re-designed product and the adjudged product to determine whether they are "more than colorably different" such that "substantial open issues of infringement exist." *Id.* at 1530. If the re-designed product and the adjudged product are not colorably different, the court must then conclude

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that the re-designed product still infringes the claims of the patents at issue in order to find a party in contempt. *Id.* at 1532. In its consideration of this two-step inquiry, a district court has broad discretion to determine the best means to enforce its injunctive decrees. *Adaptive Controls & Measurement Sys., Inc. v. Flowdata, Inc.*, 154 F.3d 1345, 1349 (Fed. Cir. 1998).

Although EchoStar concedes that its redesigned DVRs must be "colorably different" from its infringing DVRs, EchoStar predominantly relies upon its "good-faith" effort to design-around TiVo's '389 patent. Emergency Motion p. 11. However, as the district court noted, "good faith is irrelevant as a defense to a civil contempt order." Memorandum Opinion, 2009 U.S. Dist. Lexis 46160, at *28 (quoting *Waffenschmidt v. MacKay*, 763 F.2d 711, 723-26 (5th Cir. 1987)).

The notion that EchoStar can subvert the District Court's issuance of a permanent injunction by merely changing the window dressing on its infringing DVRs belies the inherent purpose of an injunction – to deter future misconduct.[5] Indeed, a liberal construction of *KSM* would permit an infringing party to dilute, in perpetuity, the intellectual property rights of a patent owner. Armed with nothing more than the façade of a "design-around," an infringing

[5] With respect to small businesses, a permanent junction also serves to provide clarity to the marketplace as to exactly what the patent covers, which can be critical to attracting investment capital.

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party such as EchoStar would be able to indefinitely stay an adverse ruling by forcing the patent owner to continually enforce its right in a separate infringement action. Certainly, in light of the exorbitant cost of protracted litigation, such corporate giants would drive small business innovators from the marketplace.

In this case, EchoStar brazenly asserts that its design-around fully comports with the letter and the spirit of the district court's injunction ruling. Emergency Motion p. 2-3. In support thereof, EchoStar boasts that it devoted "significant resources" to its redesign efforts, consisting of 15 engineers and expenditures of $700,000. Emergency Motion p. 4; 2009 U.S. Dist. Lexis 46160, at *42. EchoStar claims that this investment resulted in its changing 5,000 of 10,000 lines of DVR code, and the migration to an "indexless" system that no longer violates the parses limitation of the '389 patent.[6] 2009 U.S. Dist. Lexis 46160, at *29.

[6] Despite EchoStar's claims to the contrary, its "significant" efforts to design-around TiVo's patented technology were hardly of any consequence. Indeed, EchoStar used only 15 of its 26,000 employees in its redesign effort. Additionally, EchoStar's investment of $700,000 amounted to less than one-half of one percent of its advertising budget during the same time period. And, EchoStar's changing of 5,000 lines of DVR code was minimal in comparison to the hundreds of thousands of lines of DVR code in each EchoStar box.

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EchoStar's proffered design-around undertaking -- and the outcome thereof -- is nothing more than a veiled attempt to camouflage its continued infringement of the '389 patent. As the district court correctly concluded, "any differences between the infringing and modified products are no more than colorable" and that such modified products continue to infringe TiVo's patent. *Id.* at *48. As the district court analogized, although EchoStar's past and present trespasses upon TiVo's land may have come from different points of the compass, EchoStar, nonetheless, continues to cross "the metes and bounds of TiVo's property." *Id.* at *49-51.[7] In essence, the District Court found that EchoStar continued to infringe the same adjudicated claim. Should this Court allow such circumstances to give rise to a stay of a permanent injunction based on superficial changes, small and medium-sized enterprises will always be at a disadvantage.

Clearly, given the shortcomings of its design-around and blatant disregard for the district court's permanent injunction ruling, EchoStar has demonstrated that it has little interest in conventional jurisprudence. Instead,

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[7] Furthermore, even if EchoStar had achieved a non-infringing design-around, the district court's finding of contempt was still appropriate as EchoStar failed to comply with the district court's order that it disable the DVR functionality in all but 192,708 infringing units existing with users or subscribers. 2009 U.S. Dist. Lexis 46160, at *55.

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EchoStar has mercenarily employed a tortuous "slow-bleed" approach throughout this litigation by drowning TiVo with legal bills via delay tactics and forum shopping.

First, EchoStar waited almost two years to advise any court (or TiVo) that it had allegedly designed around the '389 patent. Then, when it did bring its redesign efforts to the attention of a court (and TiVo), it did so by filing a declaratory judgment *in Delaware* on May 30, 2008.[8] In so doing, EchoStar clearly sought to preclude TiVo from pursuing any action for continuing infringement. And, as detailed above, the design-around was not colorably different from the infringing product.

EchoStar avers that "damages are obviously adequate compensation" as TiVo is on its way to delivering its first Adjusted EBITDA positive year. Emergency Motion p. 19-20. However, EchoStar's short-sighted and cavalier perspective ignores the practical reality that its delay tactics stifle innovation and serve as a disincentive to small businesses from competing in today's knowledge economy. Instead of just reward and credit for technological innovation, small businesses – such as the members of the Association for Competitive Technology – are left with the unsavory choice of exploitation (by

[8] Additionally, EchoStar intentionally filed its declaratory action in Delaware in order to provide a jurisdictional conflict that would result in further delay.

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Goliath companies who willfully infringe patents owned by small businesses) or protracted and costly litigation. When the victor is merely a matter of which party has the deepest pockets, the public interest is severely harmed.

Despite the determination of a jury and the ruling of the District Court (which were affirmed by this Court), EchoStar continues to infringe the '389 with impunity. This Court should not permit EchoStar to delay compliance with the injunction any longer. Accordingly, for these reasons, it is of the utmost importance that this Court deny EchoStar's motion.

VI. ECHOSTAR HAS FAILED TO FAIRLY REPRESENT THE PUBLIC'S INTEREST IN ITS EMERGENCY MOTION AND CONTINUES TO HIDE BEHIND ITS CUSTOMER BASE (AND REVENUE STEAM)

When EchoStar approached this Court for a stay in August of 2006, EchoStar hid behind its customer base. Now, three years later, EchoStar hides behind its customer base yet again. EchoStar claims that six million EchoStar DVRs and twelve million users will be impacted by an Injunction. Emergency Motion p. 19. Moreover, "hundreds of millions of dollars *per month*" in revenues to EchoStar may be lost." *Id.* Yet, EchoStar suggests that TiVo has "prospered" during the period of the stay quoting TiVo's president that "we are well on our way to delivering our ***first*** Adjusted EBIDTA positive year." *Id.* at p. 20 (emphasis added). This certainly cannot be compared to EchoStar's

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multi-billion dollar per year revenue stream from their DVRs. EchoStar's *en vogue* "we are too big to fail" argument is simply laughable.

The fact remains that without a stay of the permanent injunction, no EchoStar customer will lose satellite television service. In fact, EchoStar's customers will still be able to watch television programs and even record them for later viewing.

If EchoStar can secretly download allegedly non-infringing software to its customers, it can do so in a open manner by eliminating features of the infringed claims and asking permission of the District Court below. EchoStar should not be rewarded for failing to advise the court below and this Court of its secret redesign activities preventing TiVo from acting in 2006 against the continuing infringement and having to wait two years to learn of the secret redesign. EchoStar's multi-billion dollar revenue stream, supported in substantial part by its willful infringement of the '339 patent, is precisely the reason why EchoStar can afford this Emergency Motion while it mounts a second attack on the '339 patent in its home court in Delaware.

The public interest is not found in EchoStar's customer base or its revenue stream. EchoStar alleges "no member of the public (not TiVo's customers or anyone else) will be harmed if the stay is granted." Emergency Motion p. 20. To the contrary, the public interest is found, by way of example,

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in the millions of small businesses across the country who are struggling to survive in these hard economic times. These small businesses, like TiVo, spend considerable resources on the research and development of technology which improves "the useful arts." U.S. Const., Art, I, § 8, cl. 8. Notwithstanding their expenditure of time and resources in sharing with the public their inventions and receiving rights to exclude others, entities such as EchoStar, with billions in revenues, are nevertheless able to game the system and delay the execution of a rightfully obtained injunction.

The public interest is also found in the millions of cable and satellite television customers who are receiving television digital recording services either directly by using TiVo-manufactured products or products manufactured under license from TiVo. These customers and licensees are legitimately using TiVo's patented technologies at a cost, all while EchoStar continues to game the legal system with its army of attorneys to prolong its free ride.

VII. CONCLUSION

For the foregoing reasons, ACT urges this Court not to grant Defendants-Appellants' emergency motion for a stay pending appeal.

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Respectfully submitted,

ASSOCIATION FOR COMPETITIVE TECHNOLOGY, INC.

By its attorneys,

____

Raymond Millien
Thomas H. Jackson
H. Scott Johnson, Jr.
PCT LAW GROUP, PLLC
818 Connecticut Avenue NW
Suite 700
Washington, DC 20006
(202) 293-3555

Dated: June 10, 2009

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http://www.jdsupra.com/post/documentViewer.aspx?fid=13d7ab98-f5f7-46c8-ac66-bf11e2759b14

CERTIFICATE OF COMPLIANCE

I hereby certify that this brief complies with Federal Rule of Appellate Procedure 29(d) and the type-volume limitation of Federal Rule of Appellate Procedure 32(a)(7)(B)(i). The brief contains _____ words, excluding the parts of the brief exempted by Federal Rule of Appellate Procedure 32(a)(7)(B)(iii). The brief has been prepared in a monospaced typeface using Microsoft Word in 14 point Charter BT font. As permitted by Federal Rule of Appellate Procedure 32(a)(7)(C), the undersigned has relied upon the word count of this word-processing system in preparing this certificate.

____
Raymond Millien

Dated: June 10, 2009

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CERTIFICATE OF SERVICE

I hereby certify that on June 10, 2009, through Counsel Press, I caused one original and two (2) copies of the Brief of *Amicus Curiæ* Association For Competitive Technology, Inc. in Support of Plaintiff-Appellee to be filed with the clerk for the United States Court of Appeals for the Federal Circuit by hand.

I hereby certify that on June 10, 2009, through Counsel Press, I caused two (2) copies of the foregoing Brief of *Amicus Curiæ* Association For Competitive Technology, Inc. in Support of Plaintiff-Appellee to be served upon the following counsel of record by first-class mail:

Donald R. Dunner
FINNEGAN, HENDERSON,
FARABOW, GARRETT &
DUNNER, L.L.P.
901 New York Avenue
Washington, DC 20001

Attorney for Appellants

Morgan Chu
IRELL & MANELLA LLP
1800 Avenue of the Stars
Suite 900
Los Angeles, CA 90067

Attorney for Appellee

____
Raymond Millien