

REPORT

U.S. SUPREME COURT ELIMINATES LACHES AS DEFENSE IN PATENT INFRINGEMENT CASES

April 7, 2017

On March 21, 2017, the U.S. Supreme Court issued its decision in *SCA Hygiene Products Aktiebolag v. First Quality Baby Products, LLC*, 580 U.S. _ (2017), effectively eliminating the common law defense of laches in patent infringement cases. The Court held that laches cannot be invoked as a defense against a damages claim where the infringement occurred within the six-year period prescribed by 35 U.S.C. § 286.

I. Background

Section 286 of the Patent Act states that "[e]xcept as otherwise provided by law, no recovery shall be had for any infringement committed more than six years prior to the filing of the complaint or counterclaim for infringement in the action." The Federal Circuit had long held that laches could still be used as a defense to pre-suit damages. *See A.C. Aukerman Co. v. R.L. Chaides Construction Co.*, 960 F.2d 1020 (Fed. Cir. 1992). To establish a defense of laches, a defendant was required to show that: (i) the patent owner knew, or should have known, of the alleged infringement, and with such knowledge failed for an unreasonable and inexcusable period of time to assert a claim for infringement; and (ii) the defendant was materially prejudiced by this delay. *Id.* Thus, prior to the holding in *SCA Hygiene*, a successful laches defense could bar

recovery of damages for infringement that occurred prior to the filing of a lawsuit, even if the infringement occurred within the six-year period prescribed by § 286.

In the underlying litigation, SCA initially notified First Quality about the alleged infringement in October 2003. First Quality responded asserting that SCA's patent was invalid in view of First Quality's own earlier patent. In July 2004, SCA requested *ex parte* reexamination of its patent in view of First Quality's patent, and the U.S. Patent and Trademark Office eventually confirmed the patentability of SCA's patent in 2007. In August 2010, SCA filed the present patent infringement lawsuit against First Quality. First Quality moved for summary judgment on the grounds of laches and equitable estoppel, and the district court granted First Quality's motion.

While the case was on appeal to the Federal Circuit, the U.S. Supreme Court decided *Petrella v. Metro-Goldwyn-Mayer Inc.*, 572 U.S. _, 134 S.Ct. 1962 (2014). In *Petrella*, the Supreme Court held that laches cannot defeat a damages claim for copyright infringement brought within the three-year statute of limitations period set forth in § 507(b) of the Copyright Act. Among other things, the Supreme Court's *Petrella* decision focused on: (i) separation-of-powers principles (applying laches

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within a statute of limitations period set by Congress effectively gives judges a "legislation-overriding" role that is beyond the Judiciary's power); and (ii) the traditional role of laches as an equitable remedy against untimely claims ("Laches is a gap-filling doctrine, and where there is a statute of limitations, there is no gap to be filled.").

Despite the holding in *Petrella*, a Federal Circuit panel affirmed the district court's laches holding in favor of First Quality based on the *Aukerman* precedent. The Federal Circuit then reheard the appeal, *en banc*, to reconsider *Aukerman* in view of *Petrella*, and ultimately reaffirmed *Aukerman*'s holding in a 6-to-5 decision. In particular, the Federal Circuit held that 35 U.S.C. § 282, which provides for defenses to infringement actions, including "unenforceability," creates an exception to § 286 and codifies laches as a defense to all patent infringement claims, regardless of the six-year period specified in § 286.

II. Supreme Court Decision

A majority of the Supreme Court disagreed with the Federal Circuit and held that the same reasoning that applied to the Copyright Act in *Petrella*, also applies to § 286 of the Patent Act: "[W]e infer that this provision represents a judgment by Congress that a patentee may recover damages for any infringement committed within six years of the filing of the claim."

The Supreme Court initially rejected First Quality's argument that § 286 is not a "true" statute of limitations. First Quality argued that a "true" statute of limitations should run forward from the time the claim accrues, while § 286 runs backward from the time of a lawsuit. In this regard, although the Court recognized that § 286 does not defeat a patentee's right to bring suit, the Court also recognized that such a feature "is not a

universal feature of statutes of limitation," i.e., not all statutes of limitation begin "when the plaintiff discovers or should have discovered the injury giving rise to the claim."

The Supreme Court also rejected First Quality's argument that laches was codified in § 282 as one of the exceptions to the statute of limitations provided by § 286. First Quality argued that the defenses to infringement set forth in § 282, which include unenforceability, codified laches because laches is a defense based on unenforceability. The Supreme Court declined to decide whether § 282 codified laches. Instead, the Supreme Court held that Congress, at the time of enacting the 1952 Patent Act, did not intend to include both a statute of limitations for damages, and a laches defense applicable to that statute of limitations.

The Supreme Court then analyzed the Patent Act in light of the legal landscape at the time of enactment in 1952, and held that the well-established general rule at that time was laches cannot be invoked to bar a claim for damages incurred within a limitations period specified by Congress. First Quality argued that this general rule was not applied in patent cases and that pre-1952 cases illustrated a long-standing use of laches in patent cases. However, the Supreme Court dismissed First Quality's arguments for two reasons.

First, the pre-1952 cases cited by First Quality either failed to claim damages, or for the cases that did bar damages for laches, did not involve a statute of limitations. Further, the Supreme Court stated that the number of cases allowing laches to bar a claim for damages were too few to establish a general consensus. In other words, the Supreme Court held that these few cases were merely the exception, not the rule.

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Second, the Supreme Court stated that laches was not codified into the 1952 Patent Act because the term "laches" was not used in the 1952 Patent Act. Further, even if laches were codified into the Patent Act, the defense could not be invoked to bar a claim for damages incurred within the time period set forth in § 286. In fact, the Supreme Court emphasized this point by stating "it would be exceedingly unusual, if not unprecedented, if Congress chose to include in the Patent Act both a statute of limitations for damages and a laches provision applicable to a damages claim."

Thus, the Supreme Court majority held that laches cannot be applied as a defense against a claim for damages in a patent infringement case within the statutory period under 35 U.S.C. §286.

Justice Breyer strongly dissented, arguing that the majority's opinion "ignored the fact that, despite the 1952 Act's statute of limitations, there remains a 'gap' to fill." Justice Breyer argued that such a gap exists because a patent owner can wait to sue at any time after infringement first occurs and still collect damages for the six years prior to the complaint. In Justice Breyer's view (and in the view of many *amici*), a patent owner could maximize a potential damages award by waiting for the infringer's business to become very profitable before bringing an infringement lawsuit.

Justice Breyer argued that laches should be available to bar the recovery of past damages in a case where the patentee unreasonably delays taking action resulting in prejudice to the accused infringer. In this regard, the majority emphasized that the doctrine of equitable estoppel still provides some protection against "unscrupulous patentees inducing potential targets of infringement suits to invest in the production of arguably infringing products."

Justice Breyer also argued that the 1952 Patent Act did intend to codify laches. In particular, he maintained that the word "unenforceability" had a meaning in the common law at the time that encompassed laches. He also argued that the *Petrella* decision was incorrectly decided and should not be relied on in this case. For example, Justice Breyer argued that copyright holders, similar to patent owners, may be incentivized to delay filing suit for infringement in order to increase a potential damages award.

III. Effects of Decision

In contrast to some recent Supreme Court decisions, this decision appears to favor patentees and strengthen patents. As noted above, this decision effectively eliminates laches as a defense to a delayed claim for patent infringement. Thus, laches can no longer be used as a defense and, importantly, laches is also removed as a potential negotiating tool in settlement discussions.

Although the full impact of this decision remains to be seen, it is quite possible, as argued by Justice Breyer, that some accused infringers could be subject to larger damages claims because patent owners may now choose to delay filing suit until, e.g., the accused infringer's profits are high enough to justify the cost of litigation. In any event, patentees will have significant additional time to analyze and investigate infringement claims prior to filing a lawsuit because the accused infringer will likely no longer be able to hold such delay against the patent owner.

The majority correctly notes that equitable estoppel is still available as a defense in certain cases. However, equitable estoppel is a highly fact-based defense with significant evidentiary burdens, making it difficult to prove in many cases, and, historically, it has had limited success. For example, unlike laches, equitable estoppel

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requires: (i) that the patent owner's conduct must support an inference that the patent owner *did not intend to press an infringement claim* against the accused infringer; (ii) reliance on that conduct by the accused infringer; and (iii) material prejudice. *See Aukerman*, 960 F.2d at 1042-43.

Of course, the failure of a patent owner to properly mark its products under 35 U.S.C. § 287 may still be available as a bar to past damages. Section 287(a) of the Patent Act states "[i]n the event of failure so to mark, no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter, in which event damages may be recovered only for infringement occurring after such notice." Thus, if applicable, asserting failure to properly mark under § 287 may be useful for limiting or eliminating a claim for past damages.

With the potential risk of a delayed litigation, it may in certain circumstances be worthwhile to: (i) conduct an analysis of the patent landscape before launching a new product, (ii) prepare a freedom-to-operate opinion, if necessary, and/or (iii) conduct ongoing monitoring of competitor patents. Thus, at a minimum, if a patent owner accuses a party of infringement (e.g., in a threat letter), in view of *SCA Hygiene*, the party can no longer "wait and see" if the patent owner takes further action, in the hope of pointing to the patent owner's delay as a defense to the recovery of damages.

This decision also highlights the potential strategic importance of post-grant review proceedings available under the America Invents Act. For example, the ability to challenge the validity of a patent in an Inter Partes Review or Post Grant Review remains a valuable tool in negotiating with patent owners and defending against a claim for patent infringement.

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