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High court takes on laches and patents

By Darren M. Franklin

Businesses dread getting letters that make claims of patent infringement. Such letters often raise complex questions of patent law that require specialized advice and demand a license fee that eats into company profits.

Sometimes, however, the patent owner fails to follow up on the letter, and years pass. Other times, the patent owner starts a dialogue, only to let it trail off without resolution. Occasionally, a second letter (or a patent lawsuit) comes many years after the patent owner first learned of its potential claim for patent infringement. Does the passage of time mean that the accused infringer is safe?

On May 2, the U.S. Supreme Court granted a cert petition in a case that bears on this question. The case, *SCA Hygiene Products Aktiebolag v. First Quality Baby Products LLC,* 15-927, involves a manufacturer of adult incontinence products (SCA) that sent a patent notice letter to a competitor (First Quality). The letter claimed that First Quality's "Prevail All Nites" diaper product infringed an SCA patent on an absorbent diaper. Three weeks after receiving SCA's letter, First Quality responded that the patent was invalid, citing a prior patent on disposable diapers.

SCA never responded back to First Quality. Instead, SCA went to the U.S. Patent and Trademark Office and asked it to reexamine SCA's patent in light of the prior patent that First Quality had cited. SCA did not tell First Quality about the reexamination proceedings, which are public. Nor did SCA contact First Quality again about patent infringement as First Quality expanded its line of adult incontinence products over the next several years.

In August 2010, more than three years after the reexamination proceedings ended and nearly seven years after SCA sent its initial letter, SCA sued First Quality for patent infringement. First Quality eventually moved for summary judgment of laches and equitable estoppel, which the district court granted. On appeal, a panel of the U.S. Court of Appeals for the Federal Circuit, which hears patent litigation appeals, affirmed as to laches, but reversed as to equitable estoppel, finding that a dispute of material fact remained.

At first blush, it might seem odd that the accused infringer, First Quality, would rely upon equitable defenses like laches and equitable estoppel, which require litigating through discovery, instead of attempting a motion to dismiss at the outset of the case under a statute of limitations. The Patent Act, however, lacks a traditional statute of limitations, in the sense of absolutely barring a suit once a period of time has elapsed after a cause of action accrues.

New York Times

Instead of a traditional statute of limitations, the Patent Act has a time limitation on damages: "Except 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." 35 U.S.C. Section 286. Under the statute, a patent owner may file suit more than six years after the claim accrues and even seek an injunction. But the statute allows the patent owner to reach back only six years for damages.

Thus, accused infringers have had to rely upon the equitable defense of laches when they believe that a patent owner has engaged in unreasonable delay. Under laches, the accused infringer must prove two factors: (1) The patent owner's delay in bringing suit was unreasonable and inexcusable; and (2) the accused infringer suffered material prejudice attributable to the delay. In a seminal en banc opinion from 1992, the Federal Circuit stated that "at all times, the defendant bears the ultimate burden of persuasion of the affirmative defense of laches," although a presumption of laches can attach if there has been at least a six-year delay, starting when the patent owner "knew or reasonably should have known of its claim against the defendant." *A.C. Aukerman Co. v. R.L. Chaides Constr. Co.*, 960 F.2d 1020, 1032, 1038 (Fed. Cir. 1992) (en banc).

Since 1992, accused infringers have relied upon the *Aukerman* case to defend against patent infringement suits that the patent owner unreasonably delayed in filing, at least where the accused infringer could show material evidentiary or economic prejudice. In 2014, however, the U.S. Supreme Court held in *Petrella v. Metro-Goldwyn-Mayer Inc.* that a defendant cannot invoke laches to bar a claim for damages under the Copyright Act, because the Copyright Act contains a statute of limitations that already takes the plaintiff's delay into account. 134 S. Ct. 1962 (2014). The Supreme Court stated that it has never "approved the application of laches to bar a claim for damages brought within the time allowed by a federal statute of limitations."

While *Petrella* was a copyright case, commentators immediately questioned whether the Supreme Court's holding extended to the Patent Act, and whether there is a principled distinction between the copyright and patent laws regarding their limitations provisions. Both statutes address infringement of intellectual property rights, which, by their nature, can occur repeatedly during the life of the intellectual property grant. In both cases, Congress enacted a limitations period with a look-back period from the date of suit.

SCA Hygiene similarly questioned whether *Petrella* extended to patents, requesting the Federal Circuit to rehear its appeal against First Quality en banc, and generally arguing that there is no basis for maintaining a unique rule for patent cases that requires patent owners to clear a judicially created timeliness hurdle (laches) before being granted access to the courthouse. In September 2015, the Federal Circuit issued a divided 6-5 en banc opinion rejecting SCA's arguments and holding that accused patent infringers may continue to assert laches as a defense. In its opinion, the Federal Circuit saw "no substantive distinction material to the *Petrella* analysis between § 286 and the copyright statute of limitations considered in *Petrella*." 807 F.3d 1311, 1321 (Fed. Cir. 2015). Instead, the Federal Circuit looked to a different part of the Patent Act and found a laches defense codified in Section 282(b)(1).

Now before the Supreme Court is the question of whether and to what extent laches may bar patent infringement claims brought within the Patent Act's six-year time limitation on damages. In answering this question, the Supreme Court will decide an accused infringer's potential defenses when a patent owner unreasonably delays in filing suit.

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