ALERT MEMORANDUM

Supreme Court Eliminates Laches as a Defense in Patent Infringement Suits

March 27, 2017

The Supreme Court last week eliminated from patent infringement suits the equitable defense of laches, which previously had served to bar pre-suit damages based on a plaintiff's unreasonable and prejudicial delay in filing suit. In *SCA Hygiene Products Aktiebolag v. First Quality Baby Products, LLC*,[1] the Court ruled that, because the Patent Act limits the period of recoverable damages to six years prior to suit, further limiting damages based on laches would be inappropriate.[2] The ruling extends to patent suits the holding in *Petrella v. Metro-Goldwyn-Mayer, Inc.*,[3] which similarly eliminated laches from copyright suits.

While succeeding on a laches defense had always been challenging, its presence as a potential bar to damage claims may have deterred patent holders from tactically delaying suit. Now, patent holders—particularly non-practicing entities, colloquially referred to as "trolls"—can make a tactical choice to defer suing while a defendant develops the market for an infringing product and engages in years of sales, thus maximizing the claimed damages. We summarize below the background of the Court's decision, its practical implications, and ways defendants may seek to limit damages in the absence of a laches defense.

If you have any questions concerning this memorandum, please reach out to your regular firm contact or the following authors

NEW YORK

Lawrence B. Friedman
T: +1 212 225 2840
lfriedman@cgsh.com

David H. Herrington
T: +1 212 225 2266
dherrington@cgsh.com

Arminda B. Bepko
T: +1 212 225 2517
abepko@cgsh.com

NEW YORK
One Liberty Plaza
New York, NY 10006-1470
T: +1 212 225 2000
F: +1 212 225 3999

[1] No. 15-927, 2017 WL 1050978, at *1 (U.S. Mar. 21, 2017).
[2] *Id.* at *4.
[3] 134 S. Ct. 1962 (2014).

Background and History

Both parties to the suit, SCA Hygiene Products Aktiebolag and First Quality Baby Products, produce adult incontinence products. After SCA notified First Quality of a potential infringement claim in 2003, SCA then waited seven years before filing suit.

First Quality moved for summary judgment based on laches and the district court ruled in its favor, thus barring all pre-filing damages.[4] While SCA's appeal was pending, the Supreme Court ruled in *Petrella v. Metro-Goldwyn-Mayer, Inc.* that laches is not available as a defense in copyright suits, thus overruling the decision of the lower courts that a plaintiff's 18-year delay barred its copyright claims relating to the film "Raging Bull."[5] The *Petrella* Court reasoned that permitting a laches defense would effectively override the Copyright Act's statutory limitations period, which permits recovery of damages for the three years prior to suit.[6]

By contrast, in addressing SCA's appeal in the patent context, a Federal Circuit panel affirmed the district court's laches ruling in favor of First Quality. The court relied on its prior 1992 *en banc* decision in *A.C. Aukerman Co. v. R.L. Chaides Construction Co.*,[7] which had specifically ruled that laches is a valid defense in patent infringement suits.

The Federal Circuit then chose to rehear SCA's appeal *en banc* to address whether *Aukerman* remained good law following the *Petrella* decision, and in a divided 6-5 decision reaffirmed that it did. The majority determined that laches had been codified as a defense in Section 282 of the Patent Act of 1952, relying in part on commentary by the principal author of the Act. It further reasoned that, unlike the statute of limitations at issue in *Petrella*, Section 286 of the Patent Act does not serve to bar a claim entirely, but instead only provides that recoverable damages are limited to the period of six years prior to suit.[8]

In addition, the Federal Circuit emphasized the differences between claims for copyright and patent infringement. A copyright infringement suit requires proof that the defendant copied the plaintiff's work and thus presumably had some awareness of potential liability. In patent suits, by contrast, a defendant can be liable even if it had no knowledge of the patent, and thus an unreasonable delay by the plaintiff can cause greater harm and prejudice.[9] Accordingly, a narrow majority ruled that *Aukerman* remained good law and hence laches can apply in patent suits.

The Supreme Court's Decision

In a 7-1 decision, the Supreme Court reversed, ruling that "*Petrella*'s reasoning easily fits" within the context of patent suits.[10] The Court based its decision on what it regarded as a standard principle applicable to any federal statute: that if a statute includes a provision limiting the period for which the plaintiff can bring suit or recover damages, as both the Copyright Act and Patent Act do, applying laches as a basis for further limiting damages recovery "would give judges a 'legislation-overriding' role that is beyond the Judiciary's power."[11]

The Court rejected arguments about the differences between the Patent Act and the Copyright Act, opining that the presence of time limits in both statutes reflects Congress's intent to create "a hard and fast rule instead of a case-specific judicial determination."[12] The Court further reasoned that laches is an equitable remedy intended to fill gaps where there is no legislation and that "where there is a

[4] *SCA Hygiene Prods. Aktiebolag v. First Quality Baby Prods., LLC*, No. 10CV-00122-JHM, 2013 WL 3776173, at **1-11(W.D. Ky. July 16, 2013) (The district court also found that equitable estoppel was an absolute bar to the entire claim.).
[5] 134 S. Ct. 1962.
[6] *Id.* at 1974-75.
[7] 960 F.2d 1020 (Fed. Cir. 1992) (en banc), overruled in part by *SCA Hygiene Prod. Aktiebolag*, 2017 WL 1050978.
[8] *SCA Hygiene Prods. Aktiebolag v. First Quality Baby Prods., LLC*, 807 F.3d 1311, 1323, 1329 (Fed. Cir. 2015).
[9] *Id.* at 1330.
[10] *SCA* Hygiene, 2017 WL 1050978, at *1.
[11] *Id.* at *5.
[12] *Id*. at *1.

statute of limitations," as in the Patent Act, "there is no gap to fill."[13]

In dissent, Justice Breyer disputed the majority's view that a statutory limitations period means there is no role for a laches defense. He thus contended that *Petrella* was "wrongly decided…and started th[e] Court down the wrong track."[14] Justice Breyer further reasoned that, even if *Petrella* were decided correctly, distinctions between patent and copyright law would justify preserving laches in patent suits. Justice Breyer further noted, as had the Federal Circuit, that "the principal technical drafter of the Patent Act (in a commentary upon which this Court has previously relied…) stated that § 282 was meant to codify 'equitable defenses such as laches.'"[15] Justice Breyer also pointed out that a long history of prior case law had consistently applied laches in patent suits, and that Congress could be presumed to have intended the statute to keep laches as a defense.[16]

Key Takeaways

As a matter of jurisprudence, the Supreme Court's decision reflects the resistance, at least among the majority, to arguments that patent law raises unique concerns and merits unique rules in comparison to other areas of the law. The Court's reversal of Federal Circuit rulings have frequently followed the same pattern, with the Federal Circuit articulating patent-specific rules and the Supreme Court rejecting those holdings.

As a practical matter, the elimination of laches in patent suits gives patent holders a new tool – the option of tactical delay to maximize damage claims – and correspondingly increases the potential risk that defendants will face. Further, the passage of time may lead to a loss of evidence that could assist the defendant in challenging the validity of the patent. In response to these concerns, the Supreme Court pointed out that the defense of equitable estoppel may still apply in patent suits. But equitable estoppel requires proof that a plaintiff-patentee affirmatively misled a defendant into believing it would not be sued, and hence does not protect innocent infringers who are unaware of the patent at issue. Beyond pointing to equitable estoppel, the majority observed that policy concerns are a matter for Congress.

Some may argue that eliminating laches will have little impact, because the record of patent suits reveals relatively few instances in which laches defenses were successfully asserted. But the existence of laches as a potential defense may have deterred plaintiffs from intentionally delaying suit. Without laches as a source of discipline, plaintiffs now can use delay as a tactical tool – waiting for potential defendants to develop and expand the market for products that will be the target of suit.

Companies that practice their patented inventions will have an incentive not to delay, but rather to move quickly against infringing competitors in the hope of protecting market share by winning an injunction against competing products. But non-practicing entities may now treat tactical delay as another weapon in their arsenal.

The enhanced risks of delayed infringement suits adds another reason for companies launching new products to conduct "freedom to operate" assessments – attempting to identify relevant patents and ensuring that their products do not infringe. When faced with long-delayed infringement claims, defendants should explore a "non-infringing alternative" argument – contending that, with earlier notice, the defendant could have switched to a non-infringing design, and accordingly damages should be limited to the cost of such a redesign. Further, defendants should focus on a potential patent "marking" defense – that the plaintiff failed to mark its products (or those of its licensees) with the asserted patent number, and hence damages are barred for the period before the plaintiff sued or provided notice of its claim.

[13] *Id*. at *5.
[14] *Id.* at *20 (Breyer, J., dissenting).
[15] *Id.* at *14 (Breyer, J., dissenting).
[16] *Id.* at *14-18 (Breyer, J., dissenting).

Beyond these case-specific efforts, market participants may wish to take their concerns to Congress. At present, Section 286 of the Patent Act allows plaintiffs to seek damages for a period six years prior to the date the suit is filed. Without laches as a check against tactical delay, that six year period should arguably be shortened. Alternatively, Congress could expressly reinstate laches as a defense. Congress has acted in the past to adjust patent law to address perceived imbalances and opportunities for abuse, though not going as far as some have wished. The elimination of laches from the patent landscape may spur another such effort.

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