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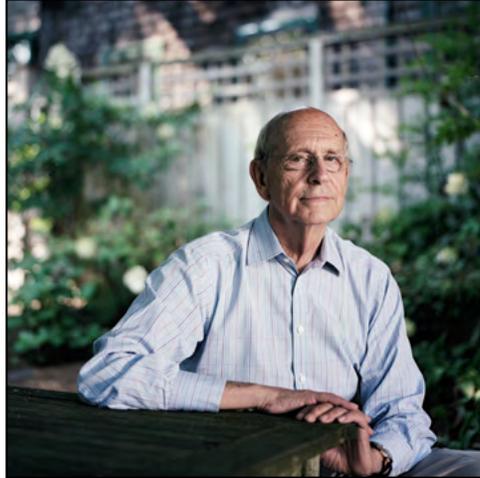
PERSPECTIVE

## Decision will hurt patent defendants

By Ben M. Davidson

Last week, in *SCA Hygiene Products Aktiebolag v. First Quality Baby Products, LLC*, 2017 DJDAR 2683 (March 21, 2017), the U.S. Supreme Court held that the equitable defense of laches is not available as a defense to a damage claim in patent infringement cases. The ruling eliminates a powerful defense that has been available in patent cases for more than a century. Laches was developed by courts of equity to protect defendants against unreasonable, prejudicial delays in commencing suit. In patent cases, the defense has been available since before the 1952 Patent Act was enacted to defend against delayed infringement claims where an accused infringer made investments in the infringing technology or lost important evidence during the period of delay. Until *SCA Hygiene*, a delay of six years in bringing a patent suit was presumed to bar all damage claims and could end the case on summary judgment. To defend their companies against delayed infringement claims, patent attorneys would go to painstaking lengths to identify not only their defenses, but how their clients were prejudiced by the delay. If a company accused of infringement had made heavy investments in the technology, or if key documents and witnesses had been lost while the plaintiff sat on its rights, a losing case could easily be turned into a winning one.

The facts in *SCA Hygiene* illustrated the value of the defense. The patent owner, SCA, sent a cease and desist letter to the defendant, First Quality Baby Products, claiming that its patent on a type of diaper product had been infringed. First Quality responded with its own letter stating that the patent was invalid based on prior art. SCA said nothing more to First Quality and instead sought a Patent Office reexamination of its patent so that the prior art could be considered.



New York Times News Service

Justice Stephen Breyer, in Cambridge, Massachusetts, Sept. 3, 2015.

Seven years later, after the Patent Office confirmed the validity of the patent, SCA sued First Quality for infringement. In the meantime, believing the matter had been resolved, First Quality had spent \$10 million investing in the technology. The district court granted summary judgment on the laches defense, and an en banc panel of the U.S. Court of Appeals for the Federal Circuit affirmed. But the Supreme Court reversed the Federal Circuit's decision in *SCA Hygiene*, holding that absent misleading conduct on the part of the patent owner (which might lead to the separate defense of equitable estoppel), a delay alone cannot bar damages.

While the Supreme Court's ruling is significant, it was not surprising. In 2014, the court eliminated laches as a defense to copyright infringement in a case involving the motion picture "Raging Bull." In *Petrella v. Metro-Goldwyn-Mayer, Inc.*, 134 S. Ct. 1962, the court held that laches cannot preclude a claim for damages within the Copyright Act's three-year statute of limitations period. The court explained that laches provides an equitable shield against untimely claims. But when Congress enacts a statute of limitations and a plaintiff complies with it, its claim is not

untimely. By enacting a statute, the court explained in *Petrella*, Congress decided that the timeliness of claims should be determined based on a hard and fast rule, not a case-by-case determination made by judges weighing the equities. Allowing judges to do that in the face of a statute of limitations enacted by Congress would give them a "legislation-overriding" role that is not permitted by separation of powers principles.

Based on the same analysis in *Petrella*, the court held in *SCA Hygiene* that a similar provision of the Patent Act, 35 U.S.C. Section 286, eliminated the defense of laches. Section 286 limits patent damages to those caused within six years of filing suit. In a 7-to-1 opinion penned by Justice Samuel Alito, the court held that laches is supposed to only be a "gap-filling doctrine" used by equity courts to address claims for which the legislature provided no fixed time limitation. But where there is a statute of limitations, the court held, there is no gap to fill. So as long as a plaintiff seeks damages for the six-year period before filing suit, it has done what Congress expressly permitted under the statute.

Sounding a familiar theme in recent years, the Supreme Court was not impressed by the Federal Circuit's view that patent law calls for a patent-specific rule. The Federal Circuit had reasoned that Congress codified laches as a defense in patent cases when it enacted the 1952 Patent Act. To arrive at that decision, the Federal Circuit relied on commentary written by a well-respected patent attorney who had helped write the act, and who believed that Congress intended to preserve the common law laches defense in the 1952 Patent Act. Section 282 of the act provides that the defenses to patent infringement include "unenforceability," and that concept, the Federal Circuit reasoned, was meant to preserve laches.

However, Alito observed that "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.” Notwithstanding a well-established practice by courts in assuming that laches had survived passing of the 1952 Patent Act, the Supreme Court found no persuasive evidence to so interpret the statute.

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Justice Stephen Breyer wrote a dissent in which he warned that the court’s decision threatens unfair legal consequences. Breyer argued, in effect, that patents are different. A delay in bringing a copyright lawsuit hurts the copyright right owner as much as the defendant, and perhaps more, because copyright infringement requires proving access. But patent infringement is a strict liability offense. A delay in bringing suit hurts only the accused infringer because it may have lost the ability to call witnesses and produce documents to show that the patent covered something that was not new at the time the patent application was filed — perhaps decades before the issue is ever presented to a jury.

Breyer also argued that despite the 1952 act’s statute of limitations, there remains a “gap” to be filled by the laches doctrine. The Patent Act’s six-year statute of limitations, Breyer explained, does not prevent bringing a lawsuit six years from the date of a violation. It permits a patentee to sue at any time an infringement takes place and just limits the period of damages to the six years before filing suit. So a patent owner, after learning of a possible infringement, is permitted by the court’s ruling to wait until the 10th or 15th year of the 20-year term of his patent to file suit. And if he wins, he can collect damages for the preceding six years of infringement. In some cases, Breyer argued, a patent owner will be rewarded for waiting a decade or more for an infringer to invest heavily to develop an infringing product and then pounce after the infringer is “locked in,” perhaps after evidence of invalidity has disappeared with time and memories have faded.

The loss of the laches defense should make companies facing potential claims of infringement be more proactive in identifying significant threats lurking beneath the surface of seemingly-calm waters. Companies who have received cease and desist letters can no longer assume that a failure to follow up by the patent owner means a lawsuit will never be filed. Notice of a significant infringement claim may merit collecting and saving prior art

evidence, including in some cases declarations needed to authenticate prior art as having been published or otherwise available before the patent application was filed. In rare cases, the possibility that a patent assertion threat may resurface years later may justify seeking out a license before investing in the technology, affirmatively challenging the patent before it has been asserted, or ensuring that the elements of an estoppel claim based on affirmative conduct of the patentee can be established. It may have made sense to “let sleeping dogs lie” before the laches defense was eliminated, but companies who have been threatened with infringement should now follow better advice: “don’t bury your head in the sand.”

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