Keywords: **laches; equitable estoppel; damages; defenses (35 USC 282)**

General: **Traditionally, laches may bar equitable remedies like an injunction or royalties. Based on the common law related to patents, a laches defense may also bar legal remedies, thereby providing legal relief for damages in a patent infringement suit.**

SCA Hygiene Products v. First Quality Baby Products
U.S. Court of Appeals Federal Circuit
Case No. 2013-1564
Decided September 18, 2015

I. Facts

SCA Hygiene Products (SCA) obtained U.S. Patent No. 6,375,646 (the '646 patent) in April, 2002 for an adult incontinence product. SCA sent a letter to First Quality Baby Products (First Quality) on October 31, 2003, asserting that First Quality's Prevail® All Nites™ product infringed claims of the '646 patent. On November 21, 2003, First Quality responded after review of the '646 patent, claiming that the '646 patent was invalid in view of US Patent No. 5,415,649 (the '649 patent). SCA and First Quality did not communicate again regarding the '646 patent. On July 7, 2004, SCA requested reexamination of the '646 patent and cited the '649 patent[1]. The reexamination included the 28 original claims and 11 new claims.

Believing the infringement allegations by SCA were dropped, First Quality expanded its product line in 2006, made an acquisition of a company with several lines of competing products in 2008, and spent $10 million to purchase three more lines of protective underwear products in 2009. SCA was aware of each of these activities by First Quality. On March 27, 2007, the USPTO issued a Reexamination Certificate confirming the patentability of all 28 original claims and the 11 new claims. In the first communication regarding the '646 patent since November 21, 2003, SCA filed suit on August 2, 2010, alleging that First Quality infringes the '646 patent.

First Quality moved for partial summary judgment of noninfringement and for summary judgment of laches and equitable estoppel. The district court granted First Quality's motion as to laches and equitable estoppel, and dismissed the noninfringement motion as moot. SCA appealed, and on September 17, 2014, a Federal Circuit panel affirmed the district court's grant of summary judgment on laches, but reversed as to equitable estoppel. [2]

SCA filed a petition for rehearing *en banc*, asking the Federal Circuit to reconsider the Federal Circuit *en banc* opinion in *Aukerman*[3] in light of *Petrella*[4]. In *Petrella*, the Supreme Court held

[1] SCA did not notify First Quality of the reexamination because it believed First Quality could follow the public reexamination proceedings.

[2] The Federal Circuit panel reversed the summary judgment as to equitable estoppel because competing inferences could be drawn as to the meaning of SCA's silence from November 2003 – August 2, 2010. For example, a dispute of material fact remained over whether First Quality relied on SCA's silence, First Quality relied on its own belief that the '646 patent was invalid, or First Quality ignored the '646 patent. The *en banc* Federal Circuit majority approved this reversal of summary judgment on equitable estoppel.

[3] *A.C. Aukerman Co. v. R.L. Chaides Construction Co.*, 960 F.2d 1020 (Fed. Cir. 1992) (en banc). *Aukerman* establishes five rules regarding the laches defense: (1) Laches is an equitable defense under 35 U.S.C. §282 (1988); (2) Establishment of laches may bar the patentee's claim for damages prior to the suit; (3) Two elements of laches defense are (a) the patentee's unreasonable and inexcusable delay in bringing suit, and (b) the alleged infringer suffered material prejudice attributable to the delay; (4) a presumption of laches arises where a patentee delays bringing suit for more than six years after the date the patentee knew or should have known of the alleged infringer's activity; and (5) the presumption of laches shifts the burden of going forward with evidence, not the burden of persuasion.

that laches was not a defense to legal relief in copyright law when the copyright infringement suit is brought within the statutory limitations period of the Copyright Act.

II. Issues

A. Is laches a defense applicable to bar a claim for damages based on infringement occurring within the six-year damages limitation period of 35 U.S.C. § 286?

B. Should the defense of laches be available under some circumstances to bar an entire infringement suit for either damages or injunctive relief?

III. Discussion

A. Yes – laches is an available defense to patent infringement within the six-year damages recovery period provided by 35 U.S.C. § 286. In *Aukerman*, the Federal Circuit determined that laches was "codified" in 35 U.S.C. § 282, specifically under the defense of "unenforceability" of 282(b)(1). In *Aukerman*, the Federal Circuit also reasoned that laches and a statute of limitations are not inherently compatible, such that laches and 35 U.S.C. § 286[5] defenses may both be asserted. Additionally, the Federal Circuit in *Aukerman* found that while laches is not limited to equitable relief, laches only prohibits recovery of pre-filing damages. *Aukerman* preserved the distinction between laches and equitable estoppel.

In *Petrella*, the Supreme Court found that the copyright statute of limitations (§507(b)) takes account of delays in bringing suit. Additionally, the Supreme Court in *Petrella* noted that historically, laches was a "gap-filling, not legislation-overriding" defense. The Supreme Court also noted that while Congress could provide for a laches defense explicitly, as in other statutes, Congress had not done so for copyrights. In reference to patent law, the Supreme Court in *Petrella* stated: "based in part on § 282 and commentary thereon, legislative history, and historical practice, the Federal Circuit has held that laches can bar damages incurred prior to the commencement of suit, but not injunctive relief. We have not had occasion to review the Federal Circuit's position." *See Petrella*, 134 S.Ct. at 1974 n. 15.

In discussing *Petrella* as applied to the present case, the Federal Circuit asserted that while § 286 is a damages limitation rather than a statute of limitations, the distinction is irrelevant and § 286 (for patents) may be compared with the copyright statute of limitations. The Federal Circuit also maintained, as in *Aukerman*, that § 282 codified laches as a defense. The Federal Circuit noted the inclusive language of § 282, legislative history, and a contemporary commentary by a principal draftsman of the 1952 Patent Act support the codification of laches as a defense.

The Federal Circuit then discussed whether laches, as codified by the 1952 Patent Act, bars legal relief, or just equitable relief. The Federal Circuit cites Supreme Court precedent for the position that courts should presume that Congress intended to retain the common law on an issue unless a contrary purpose of a statute is evident. Because the 1952 Patent Act does not clarify the type of relief for which the laches defense may be used, the Federal Circuit looks to the patent-related common law to determine the type of relief laches provides. The Federal Circuit notes that just prior to passing the bill for the Patent Act of 1952, a Senator on the Judiciary Committee in charge of the 1952 Patent Act bill said that the bill "codifies the present patent laws." An analysis of decisions from various appeals courts pre-1952 found that the appeals courts consistently applied laches to preclude recovery of legal damages. Moreover, neither SCA nor the dissent identified an appellate-level patent infringement case holding that laches is inapplicable to legal damages.

[4] *Petrella v. Metro-Goldwyn-Mayer, Inc.*, 134 S. Ct 1962 (2014).

[5] 35 U.S.C. 286 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.

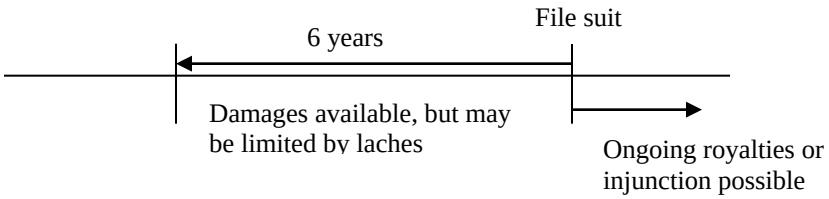
The Federal Circuit distinguishes *Petrella* by noting that for copyright, Congress codified a statute of limitations and did not codify a laches defense; however, for patents, Congress codified a laches defense and the six-year damages limitation of § 286. Thus, the Federal Circuit must enable both a laches defense and the § 286 damages limitation. The Federal Circuit also asserted that laches provides a safeguard against tardy claims that would place a significant hardship on a defendant due to the costs and time of development of an invention.

B. Yes. Laches may be considered with the *eBay* framework when considering an injunction. However, laches does not preclude an ongoing royalty, except in extraordinary circumstances. For an injunction, *eBay* instructs that the plaintiff must demonstrate (1) an irreparable injury; (2) inadequacy of remedies at law (e.g., monetary damages) to compensate for injury; (3) a remedy in equity is warranted considering the balance of hardships between plaintiff and defendant; and (4) a permanent injunction is not a disservice to the public interest. Laches should be considered in the balance of hardships determination for a permanent injunction. The Federal Circuit rejects any bright line rule of *Aukerman* regarding the interplay between laches and injunctive relief.

The Federal Circuit contrasts laches with equitable estoppel, noting that timeliness is the essential element for laches, whereas misleading and consequent loss are key to equitable estoppel. Further, laches is an abandonment of a right to collect damages during a delay, whereas equitable estoppel may bar an entire suit because equitable estoppel is akin to a license to use throughout the life of the patent. Thus, laches does not preclude an ongoing royalty, and laches should only bar recovery during the delay until the complaint is filed. The dissent-in-part agreed with this understanding of laches and the distinction from equitable estoppel.

IV. Conclusion

By a 6-5 *en banc* Federal Circuit, laches remains a defense to legal relief in an infringement suit. The six-year damages limitation of § 286 and the "codified" laches defense § 282 may be asserted together. Some expect the Supreme Court to take this up for review to follow up *Petrella*.



V. Dissent-in-part

Dissenting judges Hughes, Moore, Wallach, Taranto, and Chen criticize the "patent-specific" approach to laches that the majority took. The dissent asserts that the majority overlooks Congress' intent, Supreme Court precedent, and Supreme Court caution to not create special rules for patent cases. Specifically, the dissent notes that no Supreme Court case has approved laches to bar a claim for damages brought within the time allowed by a federal statute of limitations. The dissent asserts that the damages limitation of § 286 is a statute of limitations that strongly suggests Congress did not intend to codify a defense of laches. Looking at non-patent-related case law prior to 1952, the dissent argues that the Supreme Court held that laches cannot bar a claim for legal relief filed within a statutory limitations period. In *Petrella*, the Supreme Court noted that it has not "approved the application of laches to bar a claim for damages brought within the time allowed by a federal statute of limitations." *See Petrella*, 134 S.Ct. at 1974. The dissent remarks that "[t]o the extent that Congress codified laches, … it was as a defense to equitable relief only, not as a defense to legal relief otherwise permitted under § 286"