Keywords: **prosecution laches, GATT bubble**

General: **A patent may be unenforceable due to prosecution laches when 1) a patentee's delay in prosecution was unreasonable and inexcusable and 2) an accused infringer (or the public) suffered prejudice attributable to the delay.**

Personalized Media Communication, LLC. v. Apple, Inc.
United States Court of Appeals for the Federal Circuit
No. 2021-2275
Decided January 20, 2023

I. Facts

Personalized Media Communication, LLC (PMC) owns a patent portfolio related to network and control equipment and specializes in intellectual property licensing and patent monetization. In July 2015, PMC sued Apple, Inc. (Apple) for patent infringement, alleging that U.S. Patent No. 8,191,091 ('091 patent) and United States Patent No. 8,559,635 ('635 patent), both entitled "Signal Processing Apparatus and Methods," were infringed by Apple's FairPlay. FairPlay is a digital rights management technology that prevents piracy by encrypting media (e.g., encryption and decryption keys) so only users with Apple-provided authentication keys can view the media.

PMC's patents originated from the inventions of John Harvey and James Cuddihy, who filed their first application, U.S. Patent Application No. 06/317,510 ('510 application), in November 1981. A continuation-in-part application, U.S. Patent Application No. 07/096,096 ('096 application) based on the '510 application was later filed in September 1987. The '510 application and the '096 application formed the basis of PMC's patent portfolio (including the 2012 issued '091 patent). In fact, Mr. Harvey acknowledged that PMC's 101 patents as of April 2020 did not cover any new inventions beyond the 1981 and 1987 applications. PMC's strategy was to file continuation applications "as late as the law allowed" so that the 17 year patent term would start as late as possible. Patent applications filed before June 1995 would expire 17 years after the issue date. Further, by prosecuting inventions serially rather than simultaneously, PMC could potentially receive longer patent protection than the 17 year term from the issue date. That is, PMC could prolong its issue date by pursuing submarine patents, patent applications that have been with the U.S. Patent Office (USPTO) for an extended period of time intentionally or otherwise.

An internal PMC document even suggested that PMC's strategy was to keep PMC patents hidden while monitoring industry infringement. That is, PMC would keep its patent portfolio hidden until the claimed subject matter was widely adopted in industry. Then, PMC would engage in licensing effort against its competitors. PMC suggested that it prosecuted its patents serially because it was a small company with limited resources.

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In June 1995, Congress applied the General Agreement on Tariffs and Trade (GATT) to patent term, so that applications filed after the June 1995 deadline would expire 20 years after the filing date instead. With this new change, PMC filed over 300 continuation applications claiming priority to the ’510 application and the ’096 application just a few weeks before the June 1995 deadline to receive the 17 year term benefits. Each of these applications contained about 600 pages, and at one point, PMC had between 10,000 to 20,000 pending claims from these applications (e.g., most of the claims being placeholder claims). Further, many of these different pending applications were identical to each other, and PMC submitted thousands of references for these pending applications.

In 1997, the UPTO suspended prosecution of the majority of PMC’s applications as analysis of all the claims would be an extreme burden to the USPTO. The USPTO re-opened prosecution after PMC and the USPTO developed a “Consolidation Agreement” in which PMC agreed to consolidate its applications into fifty-six categories for each of which PMC designated applications as either an “A” application” or a “B” application (based on whether the application claimed priority to the 1981 application or 1987 application). The “A” applications were amended to include any claims the USPTO agreed were allowable, pending resolution of double-patenting issues. PMC would prosecute the “A” applications to issuance. Claims for which the patentability was disputed were included in the corresponding “B” applications, which were either appealed or abandoned, prosecution of “B” applications would be held until the issuance of the corresponding “A” applications. The “B” application served as a potential application to include any claims not allowed from the “A” application. This strategy was still burdensome. In fact, in 2001, an Examiner issued a notice of abandonment for one of PMC’ s application accusing PMC of misconduct and prosecution laches and indicated that PMC’s prosecution strategy had burdened the USPTO and caused “unjustifiable and prejudicial delay.” However, the USPTO ultimately withdrew the notice of abandonment and indicated that the Examiner’s allegation was not related to patentability. For example, the ’091 patent corresponded to an “A” application (’145 application) and a “B” application (’507 application). The ’145 application was initially filed with placeholder claims, but in February 2003, at least one claim of the ’145 application was amended to generally recite encryption or decryption. However, prosecution was stayed by the USPTO due to eleven reexamination proceedings in related, issued patents. Meanwhile, also in 2003, Apple launched FairPlay. After prosecution of the ’145 application reopened, significant amendments were made, and the ’145 application issed. PMC later introduced a decryption method claim from the ’145 that was rejected into the ’507 application via an amendment. A claim significantly broader than in those in the ’145 application was allowed, and the ’507 application issued as the ’091 patent that was asserted against Apple.

In the district court, a jury unanimously found that Apple had infringed at least one of claims 13, 14, 15, or 16 of the ‘091 patent and awarded PMC royalty damages. However, the Court entered a bench trial to address remaining issues such as prosecution laches. Prosecution laches used as defense against patent infringement requires proof based on 1) a patentee’s delay in prosecution was unreasonable and inexcusable and 2) an accused infringer or the public having suffered prejudice attributable to the delay (e.g., evidence of intervening rights, where the accused infringer or others invested in, worked on, or used the claimed technology during the period of delay). The district court found that “the only rational explanation for PMC’s approach to prosecution is a deliberate strategy of delay” and that “PMC’s actions were a conscious and egregious misuse of the statutory patent system.” Thus, the first element of laches was met. In reviewing the second element (i.e., prejudice), the court explained that the ’091 patent issued seven years after FairPlay had already matured into the version accused of infringement (and nine years since it had been under development). The district court reasoned that the prosecution delays had to be understood in the context of PMC’s expressed desire to

extend its patent rights as long as possible and conceal its inventions until infringement was deeply embedded into the industry. Based on these findings, the district court found that Apple had established prejudice. As such, the district court ruled laches rendered the '091 patent unenforceable.

II. Issues

1. Did the district court err in determining that PMC engaged in unreasonable and unexplained delay?

2. Did the district court err in finding Apple suffered prejudice attributable to PMC's delay in prosecution?

III. Discussion

1. No. In assessing whether the district court had erred in determining that PMC engaged in unreasonable and unexplained delay, the Federal Circuit rejected PMC's arguments relating to following the Consolidation Agreement and delay caused by the USPTO by noting that they do not excuse PMC's own delay. PMC specifically argued that the facts of the present case did not mirror those in other cases in which prosecution laches was found, including the Federal Circuit decision in *Hyatt v. Hirshfeld*, 998 F.3d 1347, 1359–62 (Fed. Cir. 2021). The court noted that laches is an equitable and flexible doctrine that requires consideration of the totality of the circumstances. Thus, the court found PMC's reasoning rested on a faulty premise: that its conduct had to look like *Hyatt* or other cases in which laches was found. Moreover, the court found that PMC had institutionalized its abuse of the patent system by expressly adopting and implementing dilatory prosecution strategies, specifically ambush companies like Apple years after PMC filed its applications.

PMC also argued that its "compliance" with the Consolidation Agreement and the PTO's rules precludes a finding of laches as a matter of law. However, relying on *Hyatt*, the court noted that an applicant must not only not only comply with the statutory requirements and PTO regulations but must also prosecute its applications in an equitable way. Furthermore, the court found that PMC's compliance with the Consolidation Agreement supports, rather than refutes, a finding of unreasonable and inexcusable delay, since PMC's agreement to structure a serial examination of a claim through first an A application and then a B application gave PMC the very kind of prosecution delays that supported PMC's campaign for drawn-out prosecution.

PMC further argued that the district court improperly disregarded the reasons for the prosecution's length; namely the delays in prosecution were due to PTO grappling with PMC's applications and the attempts to resolve overlapping issues across many of PMC's applications. The court rejected this again citing *Hyatt*, here for the proposition that "a delay by the PTO cannot excuse the appellant's own delay." Moreover, the court noted that the district court determined that the various prosecution delays occurred because of issues PMC intentionally created whereby even though the PTO suspended prosecution of PMC's applications, this was directly attributable to the manner in which PMC prosecuted its applications in the first place.

The court also found the argument by PMC that the district court could not base its decision on the number of applications filed by PMC unpersuasive, as the court agreed that the number

of applications could form part of the analysis and could be considered in addition to other relevant facts. Additionally, PMC argued that the district court erred in finding delay due to its decision to add narrowing limitations to encryption and decryption. The court found it reasonable for the district court to find that a delay of sixteen years from priority date of the original filing and nearly eight years from the filing of the GATT-bubble applications to include the subject matter of encryption and decryption in the claims was sufficient to trigger prosecution laches. Thus, the court found that the district court did not legally err and correctly considered the totality of the circumstances and did not disregard or ignore relevant facts. The court also found that various factual findings of the district court, contrary to arguments made by PMC, were not clearly erroneous. Therefore, the court held that the district court did not abuse its discretion in finding that PMC's delay in prosecution was unreasonable and inexcusable under the totality of the circumstances.

2. No, the Federal Circuit found the district court did not abuse its discretion in finding Apple suffered prejudice attributable to PMC's delay in prosecution. For this issue, PMC argued that Apple needed to prove that PMC was still engaged in egregious conduct causing delays after 2003, which is when PMC stated the district court found Apple began developing FairPlay). The Federal Circuit dismantled this argument by noting that it misconstrued the district court's findings as well as the law. The district court had found PMC's deliberate strategy to delay prosecution began in 1995, that Apple began developing FairPlay in the early 2000's (before 2003), and that PMC engaged in behavior causing delays at least through 2011. As such, Apple began developing FairPlay during the period of delay caused by PMC, and the district court did not abuse its discretion in finding Apple established prejudice.

IV. Dissent

Judge Stark issued a dissent arguing that Apple failed to show it had suffered prejudice during the period PMC was wrongfully delaying prosecution. In his analysis, Judge Stark found PMC's unreasonable and inexcusable prosecution delay occurred before 2000 and that PMC's post-2000 prosecution conduct was fairly routine. The dissent also argues that because Apple did not prove it was prejudiced by pre-2000 behavior, Apple did not establish a time when there was both delay and prejudice, meaning Apple failed to meet its burden to prevail on its prosecution laches counterclaim.

V. Conclusion

The Federal Circuit affirmed the district court finding that the'091 patent is unenforceable due to prosecution laches. More specifically, the Federal Circuit found the district court did not err in determining that 1) PMC engaged in unreasonable and unexplained delay and 2) Apple suffered prejudice attributable to PMC's delay in prosecution during the delay.

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V. Appendix

'145 application claim 22 (March 15, 2002 amendment)	**'145 application claim 22** (February 4, 2003 amendment)
A method of enabling a programming presentation at a receiver station, said method comprising the steps of: receiving an information transmission from at least one of a local source and a remote source, said information transmission including disabled information; detecting the presence of an instruct-to-enable signal, said instruct-to-enable signal designating enabling information; passing said instruct-to-enable signal to a processor; modifying a fashion in which said receiver station locates said enabling information in response to said instruct-to-enable signal; locating said enabling information based on said step of modifying a fashion; enabling said disabled information based on said step of locating said enabling information; and outputting said programming presentation based on said step of enabling said disabled information. (DTX-1568 at 978)	A method of ~~enabling a~~ **decrypting** programming ~~presentation~~ at a receiver station, said method comprising the steps of: receiving an information transmission ~~from at least one of a local source and a remote source, said information transmission~~ including ~~disabled~~ **encrypted** information; detecting the presence of an instruct-to-enable signal~~, said instruct-to-enable signal designating enabling information~~; passing said instruct-to-enable signal to **a** processor; ~~modifying~~ **determining** a fashion in which said receiver station locates ~~said enabling information in response to~~ **a first decryption key by processing** said instruct-to-enable signal; locating said ~~enabling information~~ **first decryption key** based on said step of ~~modifying a fashion~~ **determining**; ~~enabling~~ **decrypting** said ~~disabled~~ **encrypted** information ~~based on said step of locating said enabling information~~ **using said first decryption key**; and outputting said programming ~~presentation~~ based on said step ~~of enabling said disabled information~~ **decrypting**. (DTX-1568 at 1132, 1177)