

Best Practices

Laches: The Federal Circuit Sheds New Light on an Old but Still Vital Patent Defense

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The doctrine of laches remains alive and relatively well in patent litigation, and this is good news for alleged infringers. Patent owners and alleged infringers alike should continue to take seriously the potential impact of a viable laches defense. Why? Because a finding of laches can eviscerate or eliminate entirely the types and scope of monetary relief (e.g., past monetary damages) and, in certain cases, equitable relief sought by a patent owner who files an otherwise-winning patent-infringement action but who unreasonably and inexcusably delays filing suit.

INTRODUCTION

On most days, the U.S. Court of Appeals for Federal Circuit—the last word in patent law, short of the Supreme Court—is perfectly content to ignore copyright law.

The Federal Circuit understandably sticks primarily to its patent-related knitting and allows the other 13 frequently divided Courts of Appeal and the Supreme Court to sort out the conflicts and intricacies of copyright law, trademark law, and countless other varieties of legal jurisprudence.

But a Supreme Court *copyright* laches opinion from last year compelled the *en banc* Federal Circuit's to address and (to a degree) bless the age-old doctrine of *patent laches* in *SCA Hygiene Products v. First Quality Baby Products*.¹

THE LAW OF LACHES

To fully understand the Federal Circuit's *SCA* decision, it's first necessary to understand the basic elements of and rationale behind the doctrine of laches (not to be confused with the separate and distinct doctrine of estoppel).

The doctrine of laches, colloquially referred to as “sleeping on one's rights,” is invoked in many areas of the law and has long been a weapon, albeit a relatively underused one, in an alleged patent infringer's arsenal.

Laches is “an equitable defense to a claim for patent infringement” that requires proof by the alleged infringer of two elements by a preponderance of the evidence:

1. A patent owner's unreasonable and inexcusable delay in filing suit *and*
2. Material prejudice suffered by the alleged infringer as a result of the delay.²

Material prejudice to an alleged infringer may be “either economic or evidentiary,” and, in the case of economic prejudice, the court “must look for a *change* in the economic position of the alleged infringer during the period of delay”³ [emphasis in original].

In determining whether laches applies, a court must consider and weight “all pertinent facts and equities,” including “the length of delay, the seriousness of prejudice, the reasonableness of [the

patentee’s] excuses, and the defendant’s conduct or culpability.”⁴

Unlike estoppel, which can bar an entire legal action or claim, laches necessarily “bars relief on a patentee’s claim only with respect to damages accrued prior to suit.”⁵ The *equitable* doctrine of laches and its impact on patent infringement damages must of course be considered along with its *statutory* counterpart in the U.S. Patent Act—specifically 35 U.S.C. § 286—which typically limits a patent owner’s monetary recovery of past damages to the six-year period before the lawsuit was filed.⁶

“The stated difference in the effect of laches and estoppel has served well to emphasize that more is required in the overall equities than simple laches if an alleged infringer seeks to wholly bar a patentee’s claim.”

THE SUPREME COURT’S *PETRELLA* DECISION

To fully understand the Federal Circuit’s *SCA* decision, it’s also necessary to understand the Supreme Court *copyright* opinion that compelled an *en banc* Federal Circuit to address the continued viability of laches in the *patent* context. That copyright case was *Petrella v. Metro-Goldwyn-Meyer, Inc.*⁷

The statute of limitations that determined the outcome of *Petrella*⁷ provides that “[n]o civil action shall be maintained under the provisions of this title unless it is commenced within *three years* after the claim *accrued*”⁹ [emphases added].

Over the years when the case was pending, *Petrella* inevitably became known as the “Raging Bull” case because the case centered on a screenplay, authored by Frank Petrella and registered in 1963, about the life of the 1940s- and 1950s-era boxing champion Jake LaMotta, also known as the “Raging Bull.”

In 1980, Metro-Goldwyn-Meyer, Inc. (MGM) released the renowned film *Raging Bull*, directed by Martin Scorsese and starring Robert De Niro.¹⁰

Eighteen years later, in 1998, Paula Petrella—Mr. Petrella’s daughter and the sole owner of the copyrighted screenplay following her father’s death in 1981—informed MGM about her ownership of the copyright in the screenplay and warned that MGM’s production or exploitation of any derivative work, including MGM’s continued marketing and distribution of the *Raging Bull* film through DVD sales and other means, infringed Petrella’s copyright in the 1963 screenplay.¹¹

Petrella’s and MGM’s lawyers exchanged letters over the next two years without resolution, and Petrella repeatedly threatened legal action against



MGM. Finally, on January 6, 2009, Petrella filed a copyright infringement suit against MGM in the Central District of California.¹²

Notably, Petrella sought both monetary and injunctive relief, but only for MGM’s use and distribution of the *Raging Bull* film on or after January 6, 2006, the date falling three years before the suit was filed.¹³

The district court granted summary judgment in MGM’s favor and concluded that despite the fact Petrella’s suit sought relief only for those acts of infringement occurring within three years of filing, Petrella’s entire complaint and claims (not just her requests for monetary and injunctive relief) were barred by laches because, according to the court, Petrella had unreasonably delayed by not filing suit until 2009 (recall that MGM had first been accused of infringement and threatened with litigation in 1998).¹⁴

The court also concluded that MGM was materially prejudiced by Petrella’s delay because MGM had “made significant investments in exploiting the film” since it was first released in 1980.¹⁵

On appeal by Ms. Petrella, the Ninth Circuit affirmed the district court’s grant of summary judgment, because MGM had arguably been infringing for decades and because the court concluded it was therefore bound by its precedent that if “any part of the alleged wrongful conduct occurred outside of the [three-year] limitations period, courts presume that the plaintiff’s claims are barred by laches.”¹⁶

At Ms. Petrella’s request, the Supreme Court granted certiorari to address the district court’s and 9th Circuit’s laches-based rejection of Petrella’s claims and “to resolve a conflict among the Circuits on the application of the equitable defense of laches to copyright infringement claims brought within the three-year look-back period described by Congress.”¹⁷

The Supreme Court focused on the question of whether “the equitable defense of laches [] may bar relief on a copyright infringement claim brought within Section 507(b)’s three-year limitations period.”¹⁸

Since MGM had committed allegedly infringing acts (e.g., continuing to market and distribute the Raging Bull film) *within* the three-year period before Petrella filed suit, the Court answered this question in the negative, holding that laches “cannot be invoked to preclude adjudication of a claim for damages brought within the three-year window” set forth in Section 507(b)¹⁹ [emphasis added].

The Supreme Court added, however, that “[a]s to equitable relief, in extraordinary circumstances, laches may bar at the very threshold the particular [equitable] relief requested by the plaintiff” and that a copyright owner’s delay in filing suit “can always be brought to bear at the remedial stage, in determining appropriate injunctive relief, and in assessing the profits of the infringer attributable to the infringement”²⁰ [emphasis added] (citing 17 U.S.C. Section 504(b)).

In support of its holding, the Court took notice that it had “never applied laches to bar in their entirety claims for discrete wrongs occurring within a federally prescribed limitations period,” and inviting individual judges to set a time limit other than the [three-year limit] Congress prescribed” would “tug against the uniformity Congress sought to achieve when it enacted § 507(b).”²¹

In holding that Section 507(b) of the Copyright Act essentially trumped the judicially created laches defense in the copyright context, at least under the facts presented in *Petrella*, the Court also noted that the Copyright Act’s three-year period set forth in Section 507(b)’s “allows a copyright owner to defer suit until she can estimate whether litigation is worth the candle” and while she “will miss out on damages for periods prior to the three-year look-back, [] her right to prospective *injunctive* relief should, in most cases, remain unaltered”²² [emphases added].

With respect to Petrella’s request for *injunctive* relief (versus *monetary* relief) against MGM’s further infringement, the Court noted that “[s]hould Petrella ultimately prevail on the merits, the District Court, in determining appropriate injunctive relief and assessing profits, may take account of her delay in commencing suit,” MGM’s “reliance on Petrella’s delay,” and MGM’s “early knowledge of Petrella’s claims,” among other factors.²³

Notably, Justice Ginsburg, writing on behalf of the majority of the Supreme Court, explicitly invoked an “incident of injury” rule under which a copyright claim brought under 17 U.S.C. Section 507(b) *generally* “arises or ‘accrues’ *when an infringing act occurs*,” not when an infringing act

is discovered or reasonably should have been discovered by the copyright owner²⁴ [emphasis added].

At the same time, however, Justice Ginsburg observed in a footnote that “nine Courts of Appeal have adopted, as an alternative to the incident-of-injury rule, a ‘discovery rule,’ which starts the limitations period when ‘the plaintiff discovers, or with due diligence should have discovered, the injury that forms the basis for the claim.’”²⁵

Query whether the Supreme Court majority held in *Petrella* that:

1. the “incident of injury” rule (i.e., the “date-the-infringement(s)-occurred” rule) is now the law and that the Court, therefore, has, with a wave of its collective hand, overruled the “discovery rule” adopted by the great majority of the Courts of Appeal or
2. whether Justice Ginsburg’s statement regarding the “incident of injury” rule and the accompany footnote is mere dicta for purposes of the time of “accrual” of a copyright claim under 17 U.S.C. Section 507(b).

The answer to that question, whatever it may be, has a tremendous impact on whether certain meritorious copyright-infringement claims may be filed and maintained under Section 507(b).²⁶

Apparently to provide alleged patent infringers with a modicum of hope, the Court added that in cases involving “extraordinary circumstances” that would create an unjust hardship for a defendant and/or third parties, “the consequences of a delay in commencing suit may be of sufficient magnitude to warrant, at the very outset of the litigation,” denial of certain equitable relief sought by the plaintiff and may also be considered by the court when “determining appropriate injunctive relief and in assessing the ‘profits of the infringer attributable to the infringer.’”²⁷

In the end, the Court emphasized that Petrella’s case and requested relief were not barred by laches, that Section 507(b) “makes the starting trigger an infringing act committed three years back from the commencement of suit,” that her “action was commenced within the bounds of [the three-year] time-to-sue provision,” and that the case did not “present extraordinary circumstances” that would prevent maintenance of the lawsuit or any of the monetary or injunctive relief sought by Petrella.²⁸

THE FEDERAL CIRCUIT’S *EN BANC* PATENT DECISION IN *SCA*: A REACTION TO *PETRELLA*

The Federal Circuit took the *SCA* case *en banc* to address two questions:

1. Whether, in light of the *Petrella* decision, the defense of laches remains “applicable to bar a claim for damages based on patent infringement occurring within the six-year damages limitations period established by 35 U.S.C. Section 286.
2. Whether laches should ‘be available under some circumstances to bar an entire infringement suit for either damages or injunctive relief” in light of Supreme Court precedent and the absence of a true statute of limitations for patent-infringement claims.

As for the first question, the court answered in the affirmative, noting that Congress codified a laches defense in Section 282 of the Patent Act that bars recovery of legal relief such as pre-filing damages, including damages resulting from infringing acts occurring within six years of filing.

Notably, the court’s conclusion that laches was implicitly included among the defenses provided in 35 U.S.C. Section 282 was based primarily, if not exclusively, on commentary by Pasquale Joseph (“P. J.”) Federico, a long-time Patent Office official described in the *SCA* opinion as a “principal draftsman” of the 1952 Patent Act recodification.

As for the second question, the court also answered in the affirmative, noting that (as the question was posed) “under some circumstances” laches can bar a patent lawsuit seeking damages under 35 U.S.C. Section 284, that laches may also bar injunctive relief, and that a patent owner’s unreasonable and/or inexcusable delay in filing suit should be considered by a court, along with the other factors set forth in *eBay Inc. v. MercExchange, LLC*,²⁹ in determining whether to grant an injunction.

The facts of *SCA* were relatively straightforward. In October 2003, *SCA* sent First Quality a letter alleging that a product made and sold by First Quality infringed *SCA*’s ‘646 patent.

In November 2003, First Quality wrote *SCA*, alleging that the ‘646 patent was invalid in light of a prior art patent. In July 2004, *SCA* requested reexamination of its own ‘646 patent in light of the patent cited by First Quality.

Although it was not required to do so, *SCA* never informed First Quality about the ‘646 patent reexamination, First Quality apparently never learned about the reexamination, and, “from First Quality’s point of view, *SCA* dropped its infringement allegations against First Quality after First Quality argued the patent was invalid in the November 21st letter.”

In March 2007, the U.S. Patent and Trademark Office (PTO) confirmed the patentability of all original claims of the ‘646 patent. First Quality did not sit on its hands after it wrote *SCA* alleging that the ‘646 patent was invalid.

In the three and one-half years after it wrote *SCA* in November 2003 and before the PTO ultimately confirmed the patentability of the ‘646 patent in March 2007, First Quality had significantly expanded its potentially infringing product offerings by spending at least \$10 million to purchase at least four additional product lines.

Under these facts, the Western District of Kentucky granted First Quality’s motion for summary judgment as to laches and equitable estoppel. On appeal, a Federal Circuit panel affirmed the district’s grant of summary judgment as to laches and “rejected *SCA*’s argument that the Supreme Court’s *Petrella* decision abolished laches in patent.”

The panel instead felt bound by the *en banc* Federal Circuit’s previous and thorough opinion on laches in *A.C. Aukerman Co. v. R.L. Chaides Construction Co.*³⁰

As noted above, the *Aukerman* court had expressly affirmed that laches was alive and well in the patent litigation context, holding that laches is “an equitable defense to a claim for patent infringement” and was “well established at the time of recodification of the patent laws in 1952.”³¹

In *SCA*, the Federal Circuit was placed in the position of dealing with the Supreme Court’s recent copyright decision in *Petrella* and with the reconciliation of two separate, distinct, and (at least to some Federal Circuit judges) irreconcilable sections of the Patent Act:

1. 35 U.S.C. Section 286, which limits recovery of past damages to the six years before a patent-infringement complaint is filed
2. 35 U.S.C. Section 282, which, as noted above, has implicitly included laches as one of the affirmative defenses to allegations of patent infringement since the recodification of the patent laws in 1952

Not surprisingly, the majority of the Federal Circuit in *SCA* repeatedly invoked its previous *en banc* decision in *Aukerman* in holding that “[b]y its terms, § 286 is a damages limitation [that] does not preclude bringing a claim,” that Congress codified a laches defense more than 60 years ago in Section 282(b)(4)’s “catch-all provision,” that the court saw “no substantive distinction material to the *Petrella* analysis” between Section 286 of the Patent Act and

Section 507(b) of the Copyright Act considered in *Petrella*, and that the Section 286 damages limitation and the Section 282 laches defense “must continue to coexist” in patent litigation.

The Federal Court’s holding that laches “remains a viable defense to legal relief in patent law” is critical because, as the Federal Circuit observed, “without laches, innovators have no safeguard against tardy claims demanding a portion of their commercial success.”

Also, unlike in copyright cases (in which knowledge of, and proof of access to, the copyright material is required), a patent case (in which innocent infringement, independent invention, and lack of knowledge of the patent are no defense) may involve a defendant who is oblivious to its infringing activity and may be unable to “estimate its exposure when making its initial investment decision.”

The important takeaways (some old, some new) from the *SCA* opinion are these:

- In patent cases, laches remains a viable defense for an alleged infringer that can bar recovery of pre-filing monetary damages based on a reasonable royalty or, in some instances, the patent owner’s lost profits.
- Absent “egregious circumstances, [and] when injunctive relief is inappropriate, the patentee remains entitled to an ongoing royalty,” and “equity normally dictates that courts award ongoing royalties, despite laches.”
- Laches *may* but does not *necessarily* bar permanent injunctive relief, and “district courts should consider all material facts, including those giving rise to laches, in exercising its discretion” under the Supreme Court’s controlling *eBay* decision to grant or deny a permanent injunction against further patent infringement.³²
- Like the commonly invoked defenses of invalidity and noninfringement, laches is another available statutory defense implicitly included in Section 282 of the Patent Act since at least 1952, despite the fact that the term “laches” appears nowhere in Section 282.
- Unlike estoppel, laches does not operate to bar an entire suit. Laches bars past, pre-filing monetary damages and, in some cases, may also bar ongoing monetary relief and/or permanent injunctive relief.

CONCLUSIONS AND RECOMMENDATIONS

Until and unless the Supreme Court decides otherwise, laches remains a potentially potent defense to patent infringement. Not surprisingly, given the razor-thin 6-to-5 victory for alleged infringers in the Federal Circuit’s *SCA v. First Quality* decision, *SCA* filed a petition for writ of certiorari in the Supreme Court (No. 15-927) in January of this year. That petition remains pending and undecided as of the publication of this article.

To the author, the most confusing and troubling aspect of the Federal Circuit’s *SCA* decision was that the court saw “no substantive distinction material to the *Petrella* analysis” between Section 286 of the Patent Act (which by its express terms sets a time limitation on patent damages, not a time limitation on the filing of a lawsuit) and Section 507(b) of the Copyright Act considered in *Petrella*, which establishes as three-year “clock” to file a copyright lawsuit and makes no mention of damages or other relief.

In addition, the fact that the defense of laches is not expressly recited in 35 U.S.C. Section 282(b) and the fact that the Federal Circuit relied upon the Federico commentary as a basis (if not *the* basis) for concluding that laches is included under 35 U.S.C. Section 282(b)(4) as a patent infringement defense may understandably concern some, if not most, Supreme Court justices.

The author, however, believes that laches will remain a viable and important defense against patent infringement allegations, even if the issue of laches in the patent context is taken up and reconsidered by the Supreme Court, since no consideration of the Copyright Act or the *Petrella* decision is required to analyze laches in the patent context.

As noted by the Federal Circuit, the Patent Act includes *both* a laches defense codified in 35 U.S.C. Section 282 *and* a six-year time limitation on the recovery of damages codified in 35 U.S.C. Section 286, and both provisions of the Patent Act “can coexist in patent law.”

The Supreme Court has not been reluctant during the past few years to disagree with Federal Circuit opinions addressing critical patent issues and standards.

The Supreme Court, however, typically is not in the business of striking or amending federal statutes absent a clear conflict between Congress’s language and intent. The author believes that *SCA*’s petition for certiorari in the Supreme Court will be denied, or that the Supreme Court would affirm the viability of laches as a defense to allegations of patent infringement.

Our recommendations for alleged patent infringers? Don't hesitate to plead and prove the defense of laches in cases in which the patent owner (e.g., a nonpracticing entity that purchased a patent and lay in wait until an alleged infringer with deep pockets emerged) has unreasonably or inexplicably delayed filing suit for years after it knew or should have known of your client's allegedly infringing activity.

Including or omitting a laches defense in your answer can make the difference between a patent owner:

1. going home empty handed or
2. recovering significant past damages and receiving either ongoing royalty payments or a permanent injunction.

And for patent owners? Recognize and deal with laches, which likely is not going away any time soon. Don't invite a finding of laches under the Federal Circuit's *SCA* decision and other authority (e.g., *Aukerman*) by unnecessarily delaying assertion of your potentially valuable patent rights.

If your patent is being infringed, and you have conducted the necessary investigation and due diligence, take action by (from the most aggressive to least aggressive):

1. filing a complaint, serving the summons and complaint, and commencing litigation;
2. filing a complaint and, afterwards, inviting settlement discussions or mediation during the pre-service period allowed under Rule 4(m) of the Federal Rules of Civil Procedure; or
3. informing the alleged infringer of your infringement concerns and inviting further discussions or alternative means of dispute resolution (a side effect of which can be a declaratory judgment action filed by the alleged infringer against you in an inconvenient and/or unfavorable forum).

Patent litigation can be expensive, disruptive, and tempting to avoid, but sleeping for years on your patent rights may eventually result in a rude awakening under *SCA*.

Notes:

1. *SCA Hygiene Products v. First Quality Baby Products*, No. 2013-1564, 807 F.3d 1311 (2015) (en banc). The SCA court's sharply divided, six-to-five opinion can be found at <http://www.ca9.uscourts.gov/node/18997>.

2. See *A.C. Aukerman Co. v. R.L. Chaides Co.*, 960 F.2d 1020, 1032 (Fed. Cir. 1992) (en banc).
3. *Id.* at 1033
4. 960 F.2d at 1034.
5. *Id.* at 1040-41.
6. See 35 U.S.C. § 286 (“[N]o 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.”).
7. *Petrella v. Metro-Goldwyn-Meyer, Inc.*, 134 S. Ct. 1962 (2014), the Supreme Court's opinion for which may be found at <http://www.supremecourt.gov/opinions/13/13>.
8. 17 U.S.C. § 507(b).
9. *Id.*
10. 134 S.Ct. at 1970-71.
11. *Id.* at 1971.
12. *Id.*
13. *Id.* at 1971-72.
14. *Id.* at 1971-72.
15. *Id.* at 1972.
16. *Miller v. Glenn Miller Prods., Inc.*, 454 F.3d 975, 997 (9th Cir. 2006).
17. 134 S.Ct. at 1972.
18. *Id.* at 1967.
19. *Id.*
20. *Id.*
21. *Id.* at 1975.
22. *Id.* at 1976
23. *Id.* at 1978.
24. 134 S.Ct. at 1969.
25. *Id.* at n.4.
26. See, e.g., Bart A. Starr, *Fixing Copyright's Three-Year Limitations Clock: The Accrual of an Infringement Claim under 17 U.S.C. § 507(b)*, 78 WASH. U. L.Q. 623 (2000) (proposing adoption of the “discovery” rule by all courts).
27. *Petrella*, 134 S.Ct. at 1967, 1977 (citing *Chirco v. Crosswinds Communities, Inc.*, 474 F.3d 227 (6th Cir. 2007) as “illustrative” of such “extraordinary circumstances”).
28. *Id.* at 1975, 1978.
29. *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006).
30. *A.C. Aukerman Co. v. R.L. Chaides Construction Co.*, 960 F.3d 1020 (Fed. Cir. 1992) (en banc).
31. *A.C. Aukerman*, 960 F.2d at 1027, 1029.
32. See *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006).

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