PATENT FILE

Should the US Supreme Court retain patent laches?

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Ha Kung Wong and **Jeffrey R Colin** examine the high-profile case of *SCA v First Quality*, which has the potential to impact industry

The fate of patent laches – a remedy for prejudice caused by undue delay – was hotly debated at the US Court of Appeals for the Federal Circuit (CAFC) in *SCA Hygiene Products Aktiebolag v First Quality Baby Products, LLC*,[1] in light of the Supreme Court of the US' (SCOTUS) 2014 *Petrella v Metro-Goldwyn-Mayer*[2] decision curtailing copyright laches. In *Petrella*, SCOTUS held that laches cannot bar the recovery of damages incurred within the Copyright Act's three-year limitations period. However, the court did not review the Federal Circuit's position that "laches can bar damages incurred prior to the commencement of suit". On 1 November 2016, SCOTUS heard oral argument on that issue in *SCA*, which has significant potential to impact industry.

Background on Petrella and SCA

In *Petrella*, the Supreme Court held that even though the plaintiff could have sued as early as 1991, and threatened Metro-Goldwyn-Mayer (MGM) with suit in 1998, copyright laches did not preclude her from suing in 2009 and seeking damages for sales of the allegedly infringing film (*Raging Bull*) occurring during the preceding three-year period. The court rejected MGM's argument that it would be unfair to let a plaintiff defer suit while a defendant makes substantial investments in commercialising an allegedly infringing work, holding that to the extent an infringement suit seeks relief for conduct occurring within a federal statute of limitations, "courts are not at liberty to jettison Congress' judgment on the timeliness of suit."

In *SCA*, the CAFC found that SCA's almost seven-year delay in bringing its patent suit from the time it first sent a demand letter to First Quality was undue delay, and that First Quality was prejudiced by spending tens of millions of dollars in expanding its adult incontinence products business based on its reasonable belief that SCA would not file a patent litigation. In holding that laches can be used to bar legal remedies, even in light of *Petrella*, the Federal Circuit majority distinguished the copyright and patent statutes and discussed supporting common-law leading up to the 1952 Patent Act.

> **"The elimination of this long-standing defence could potentially expose innovative industry to increased abusive litigation tactics."**

The Federal Circuit majority also relied in part on the proposition that "laches is [] more useful to defendants in patent-infringement suits", stating that *amici* "encompassing industries as diverse as biotechnology, electronics, manufacturing, pharmaceuticals, software, agriculture, apparel, health care, telecommunications, and finance – overwhelmingly support retaining laches in patent law." Indeed, of the 19 *amicus* briefs signed onto by 40 parties, 13 supported the defendant First Quality and retaining patent laches, four supported the plaintiff SCA and two supported neither party, indicating the importance of this case to industry participants.

After SCOTUS granted SCA's petition for a writ of *certiorari* in May 2016, even more industry participants signed onto *amicus* briefs in favour of retaining patent laches. 43 parties filed nine briefs in support of First Quality and retaining patent laches; 12 parties filed five briefs in support of SCA; and three briefs support neither party, but two of which favour retaining patent laches. To put the industry support for retaining patent laches into perspective, the brief from Dell, Canon, Comcast, Google, MasterCard, Samsung, and 25 other parties is telling:

"*Amici* are technology companies, trade associations of internet, wireless communications, automotive, and computer companies, financial services companies, and retailers that use and sell high-technology products. We represent more than $5.5trn of market capitalisation and employ many of the world's most innovative computer scientists and engineers."

Other industry *amici* include leading pharmaceutical, biotech, and manufacturing companies. In contrast, industry support for the curtailment of patent laches includes two companies, both of which face a laches defence that will likely be decided based on the ruling in SCA.[3]

In light of the strong industry concern, we take a closer look below at *amicus* briefs supporting the maintenance of patent laches.

The arguments for maintaining patent laches

The industry *amici* support First Quality's legal arguments that laches is, and should remain, a defence to damages for infringement, highlighting its importance with additional evidence of the real world impact of laches on high-technology industries. The *amici* discuss numerous patent cases in which laches was an important defence for innovator companies accused of patent infringement that acted in good faith in developing and expanding their business over a substantial period. The earlier a potential infringer is made aware of a claim for patent infringement, the better situated it is to design around the patent, to negotiate a licence before it gets locked into a specific technology, to exit the market, or to challenge the patent.

Of particular importance to the *amici* is the use of laches to protect operating companies from unreasonable delay by non-practising entities (NPEs or patent trolls), which often bring suit 15 years or more after a patent issues. Operating companies typically seek to enforce patents soon after issuance to keep infringing competitors from entering the marketplace. In contrast, NPEs often buy patents near expiration and assert them after waiting until profits (and thus potential damages) are at their maximum. Litigation over old patent claims can be difficult, expensive and uncertain, and NPEs have substantial leverage to extract settlements, particularly when innovators have already committed significant resources or become locked into a particular product design or technology. One article estimates "defendants have lost over half a trillion dollars of wealth – over $83bn per year during recent years" due to litigation by patent trolls.[4] The high cost of such litigation has the potential to stifle innovation and force the removal of innovative products from the marketplace.

Amici argue that laches are particularly necessary for patent defendants because they are more likely to face evidentiary prejudice than copyright defendants. Copyright infringement requires plaintiffs to prove copying, so the loss of evidence typically hurts copyright plaintiffs, not defendants. When a patentee delays filing suit, however, the risks of documents being lost, memories fading, and the death of witnesses increase, harming a patent defendant's ability to prove patent invalidity defences or non-infringement, which often require evidence from the time of patent filing. For example, in *Princeton Digital Image Corp v Dell Inc*,[5] Dell was sued in 2013 over a patent that issued in 1989. Dell believed that one or more of its vendors may have had a licence to the patent, which would have provided a defence to infringement, but the delay made it extremely difficult to determine the licensing arrangements of third parties.

Amici further argue that patent defendants face greater economic prejudice than copyright defendants. Because copyright infringement requires actual copying, infringers have notice of their potential liability and can estimate their exposure when making investments. Moreover, new movies, music and books earn most of their revenues in the first few years after publication with a sharp decrease in receipts over time, so a long delayed suit may be of less concern.

In patent cases, intentional copying is not required and innovators can spend enormous amounts of money to introduce new products, only to face unexpected litigation years later. For example, Briggs & Stratton, the world's largest manufacturer of small gasoline engines, was sued in 2010 over a patent that issued in 1999.[6] Had it been aware of the patent earlier, Briggs could have avoided the accrual of years of potential damages by easily and inexpensively altering the shape of the accused product to avoid infringement. In another example, Sprint spent billions of dollars over two decades to build its digital nationwide wireless network. A NPE sued Sprint in 2008 for using equipment bought from various vendors since 1996 that was part of a widely adopted industry standard.[7] If sued earlier, Sprint could have replaced the infringing infrastructure at a relatively low cost or negotiated a reasonably priced licence before it became locked into the technology. Pharmaceutical and medical device companies face similar concerns since they invest enormous amounts of resources in developing products, including satisfying complex regulatory processes.

Finally, some *amici* argue that the use of laches to limit or bar recovery in patent infringement cases has been well settled since at least the Federal Circuit's *Aukerman*[8] decision nearly 25 years ago, and operating companies have come to rely on that recognition. The *amici* further argue that Congress could have legislated laches out of existence if it chose to do so, and that Congress is better suited to weigh the policy considerations of such a change: "[C]ourts must be cautious before adopting changes that disrupt the settled expectations of the inventing community."[9]

Discussion

The *amici* supporting First Quality make an important point that laches are necessary in the patent context for industry because it rightly discourages patentees from waiting silently and watching damages accrue. The elimination of this long-standing defence could potentially expose innovative industry to increased abusive litigation tactics resulting in undue damages or forced settlements based on weak or frivolous patent claims against well-established and highly-valuable products. Innovation could be stifled if companies are forced to curtail product development, or take proactive legal measures, every time they receive a demand letter, even if the patent owner fails to pursue litigation within a reasonable amount of time. The Patent Act is designed to "promote the progress of science",[10] but eliminating the laches defence could result in allowing patents to be used to accomplish just the opposite, thus negatively impacting everyone, including the public.

Footnotes

1. No 15-927.
2. 134 S Ct 1962 (2014).
3. See *Medinol Ltd v Cordis Corp*, No 15-998 (US 2 Feb 2016), and ART+COM *Innovationpool GmbH v Google, Inc,* No 14-cv-217-RGA (D Del).
4. Brief of Briggs & Stratton Corporation, *et al,* at 19, citing James Bessen *et al,* 'The Private and Social Costs of Patent Trolls', 34 Regulation 26 (Winter 2011-2012).
5. No 1:13-cv-00238-LPS (D Del).
6. *Exmark Mfg Co, Inc v Briggs & Stratton Power Prods Grp, LLC*, No 8:10-cv-00187 (D Neb).
7. *High Point Sarl v Sprint Nextel Corp*, 67 F Supp 3d 1294 (D Kan 2014), *aff'd in part on other grounds*, 817 F.3d 1325 (Fed Cir 2016).
8. *AC Aukerman Co v RL Chaides Constr Co,* 960 F.2d 1020 (Fed Cir 1992).
9. *Festo Corp v Shoketsu Kinzoku Kogyo Kabushiki Co,* 535 US 722 (2002).
10. US Const Art I, Sec 8, Cl 8.

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