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COMMENTARY

Federal Circuit's *En Banc* Decision Expands Role of Laches

On September 18, 2015, the *en banc* Federal Circuit upheld the viability of the laches defense in patent infringement suits. *SCA Hygiene Products v. First Quality Baby Products*, No. 13-1564, September 18, 2015. More specifically, the court ruled that in the patent context: (i) "[l]aches bars legal relief," (ii) "courts must weigh the facts underlying laches in the *eBay* framework when considering an injunction," and (iii) "absent extraordinary circumstances, laches does not preclude an ongoing royalty."

SCA Hygiene Products and First Quality Baby Products are competitors in the adult incontinence products market. In October 2003, SCA wrote a letter to First Quality, expressing the belief that one of First Quality's products infringed U.S. Patent No. 6,375,646 ('646 patent). In November 2003, First Quality responded, claiming that the patent was invalid. SCA did not reply, but in July 2004, SCA requested reexamination of the '646 patent. In March 2007, the PTO confirmed the patentability of all original claims of the '646 patent and issued several other claims. Then, in August 2010, SCA filed a patent infringement suit against First Quality based on the '646 patent. At that point, it had been nearly seven years since SCA and First Quality had communicated regarding the '646 patent, and in that time, First Quality had invested heavily in its protective underwear business.

In the district court, First Quality moved for summary judgment, raising the laches defense among others. The district granted summary judgment on laches, and SCA appealed.

Laches is an equitable defense, often defined as unreasonable, prejudicial delay in commencing suit. It has long been recognized as a defense in patent cases. At the same time, 35 U.S.C. § 286 limits damages to the six years prior to the filing of the complaint in a patent infringement suit. In *A.C. Aukerman Co. v. R.L. Chaides Construction Co.*, 960 F.2d 1020 (Fed. Cir. 1992), the *en banc* Federal Circuit held that there was no conflict between the equitable defense of laches and the statutory limitation on recovery codified at 35 U.S.C. § 286. The *Aukerman* court further held that laches bars a patentee's claim for damages prior to suit, but that laches could not bar the entire suit.

While SCA's appeal was pending, the U.S. Supreme Court addressed the viability of the laches defense in the copyright context, where 17 U.S.C. § 507(b) bars the bringing of a copyright suit more than three years

after the claim has accrued. *Petrella v. Metro-Goldwyn-Mayer*, 134 S. Ct. 1962 (2014). With respect to copyright cases, the Supreme Court held that laches could not be invoked to bar a claim for damages brought within the three-year window, but that laches could be invoked in extraordinary circumstances to bar equitable relief.

On September 17, 2014, a panel of the Federal Circuit affirmed the district court with respect to its laches ruling. That panel held that the Supreme Court's *Petrella* decision did not abolish the laches defense in patent law, and the panel instead applied *Aukerman*. SCA filed a petition for rehearing *en banc*, which the Federal Circuit granted on December 30, 2014. In granting rehearing *en banc*, the Federal Circuit posed two questions—in general terms, whether laches bars claims for damages in patent infringement suits, and whether laches could bar entire patent infringement suits.

On September 18, 2015, the *en banc* court upheld the viability of the laches defense in patent infringement suits. After summarizing the reasoning of both *Aukerman* and *Petrella*, the court began by considering the character of 35 U.S.C. § 286. *Petrella* had analyzed 17 U.S.C § 507(b) and concluded that it was a statute of limitations. The Federal Circuit, by contrast, concluded that § 286 was a damages limitation, and not a statute of limitations. Ultimately, however, the court found that distinction irrelevant to its resolution of the case under *Petrella*. The court explained that "the question under *Petrella* is whether Congress has prescribed a time period for recovery of damages," and therefore § 286 invoked the *Petrella* analysis as would statutes of limitations.

Importantly, the court then held that Congress codified a laches defense at 35 U.S.C. § 282(b)(1), which provides that "[n]oninfringement, absence of liability for infringement or unenforceability" "shall be defenses in any action involving the validity or infringement of a patent." The court explained that the plain terms of § 282 are broad, and that the House and Senate Reports on the provision reinforce its expansive reach. The court also focused on commentary authored by P.J. Federico, a principal draftsman of the 1952 recodification of the Patent Act. In that commentary, Federico had written that the defenses captured by ""[n]oninfringement, absence of liability for infringement or unenforceability' … would include … equitable defenses such as laches.'"

The court then turned to address the question of whether laches as codified in the Patent Act bars recovery of legal relief. The court found no guidance in the text of the Act nor in its legislative history. Instead, the court invoked the canon that when Congress fails to explicitly or implicitly evince its intention on an issue, it must be presumed that Congress intended to retain the substance of the common law. The court noted that with respect to the Patent Act, Congress's purpose was "to codify the prevailing law wholesale, except where changes were expressly noted." The court thus reviewed the pre-1952 case law on laches and found that "by 1952, courts consistently applied laches to preclude recovery of legal damages." Indeed, "[n]early every circuit recognized that laches could be a defense to legal relief prior to 1952." The court gave particular attention to two such cases where courts had considered the argument that laches might operate as a defense to bar only equitable relief, emphasizing that both of those cases ruled that laches could bar legal relief as well. After reviewing this case law, the court noted that neither SCA, nor its amici, nor the dissent, had been able to point to a single patent infringement case before a court of appeals where it was held that laches did not apply to legal relief.

The court next pointed out that *Petrella* rested on separation of powers concerns—Congress had spoken to the timeliness of copyright claims in the Copyright Act (§ 507(b)), so there was no room for the judicially created doctrine of laches. But in the Patent Act, not only was there a provision on the timeliness of damage claims (§ 286), but there was also a provision recognizing the laches defense (§ 282(b)(1)). Thus with respect to patent infringement cases, due respect for congressional authority required that the court preserve the laches defense.

The court also emphasized a distinction between copyright and patent law that informed its analysis—"[i]ndependent invention is no defense in patent law, so without laches, innovators have no safeguard against tardy claims demanding a portion of their success."

With respect to the court's second question, namely whether laches could bar prospective relief, the court reexamined *Aukerman* in light of *Petrella* and *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006). According to *eBay*, in order to secure an injunction, a "plaintiff must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available

at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction." *Id.* at 391. And according to *Petrella*, "the District Court, in determining appropriate injunctive relief … may take account of [the plaintiff's] delay in commencing suit." 134 S. Ct. at 1978. The court concluded that laches "fits naturally" into the *eBay* framework and directed that "district courts should consider all material facts, including those giving rise to laches, in exercising its discretion under *eBay* to grant or deny an injunction."

The court reached a somewhat different conclusion with respect to ongoing royalties: "while the principles of equity apply, equity normally dictates that courts award ongoing royalties, despite laches." The court distinguished the doctrine of equitable estoppel, the gravamen of which "is misleading and consequent loss." *Petrella*, 134 S. Ct. at 1977. Equitable estoppel bars the entire suit, including ongoing royalties, whereas a patentee guilty of laches, absent egregious circumstances, typically does not forfeit its entitlement to royalties going forward.

Five judges concurred in part and dissented in part. These judges agreed with the majority that laches is available to bar equitable relief but dissented that "laches is no defense to a claim for damages filed within the statutory limitations period established by 35 U.S.C. § 286."

In the wake of the Federal Circuit's decision, laches remains available to protect the company that "may independently develop an invention and spend enormous sums of money to usher the resultant product through regulatory approval and marketing, only to have a patentee emerge six years later to seek the most profitable six years of revenues." The decision was trumpeted by some commentators and media outlets as maintaining the viability of a "Patent Troll Weapon." However, for a variety of reasons, including the 6–5 nature of that decision and the decision's frequent invocation of *Petrella*, it is possible that the Supreme Court may step in to review the issue in the near future.

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