



OUTLOOK REALIZED: THE SUPREME COURT HAS HARMONIZED
EQUITABLE DEFENSES IN INTELLECTUAL PROPERTY DISPUTES
MOVING THE NEXT FIGHT IN THE WAR ON NPES AND PAES TO CONGRESS

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Last week, this author predicted a decisive result in *SCA* with a potential of a 7-1 decision where the Supreme Court would make it 3-0 in reversing the Federal Circuit this term. The Supreme Court did exactly that. As forecasted, the Supreme Court held that the reasoning in *Petrella* controlled the result in *SCA*: namely, laches cannot be invoked to bar legal relief in the face of a statute of limitations enacted by Congress. In again resting its holding on separation of powers principals, the Supreme Court also looked to the traditional role of laches and how it should not get applied specially (from other civil litigation) simply because it is raised in a patent dispute.

Writing for the Court, Justice Alito explained how the Federal Circuit misinterpreted the Patent Act by finding that laches had been codified into the Patent Act. To refresh, the Federal Circuit came to the conclusion on laches being codified based on its then-understanding of the caselaw. The Supreme Court “closely examined” this caselaw regarding the relationship between laches and statutes of limitations that the *en banc* majority from the Federal Circuit (and First Quality) relied. By placing the cases into three groups, the majority reasoned, “nothing less than a broad and unambiguous consensus of lower court decisions could support the inference that §282(b)(1) codifies a very different patent-law-specific rule.” No consensus was found. Finally, though this author speculated that another justice might write a brief concurrence highlighting that it is the province of Congress, and not the Supreme Court, to incorporate policy views into a judgment when the statute is clear, Justice Alito simply noted that the Supreme Court cannot overrule the judgment of Congress.

Unsurprisingly, Justice Breyer, who wrote the dissent in *Petrella* and who may have spoken the most during oral argument in *SCA*, authored a spirited dissent therein as well. As he did during oral argument, he again stressed that *Petrella* was wrongly decided, but that the majority should have distinguished that case in now finding that laches should not be a bar. Justice Breyer showed that defendants had employed laches as a defense for a long period of time in the courts of equity, where patent cases had been litigated since 1937 (up until the merger of law and equity in 1938). He also argued that the analytical framework of grouping the cases used by the majority discredited the outcome. Though the dissent is compelling, especially due to the policy considerations, this case was straightforward since *Petrella* was controlling (which is why this author could envision a 7-1 outcome).

Now that the Supreme Court has jettisoned laches as a defense in patent cases involving legal disputes where there is a stated statute of limitations, the focus will now turn to Congress. The outlook there is murkier. However, with the right timing and the right amount of lobbying, patent law could again see laches as a defense where legal remedies are sought.

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(unmodified)

Sometime in the next three months, the U.S. Supreme Court will answer the question in patent cases (involving legal remedies like monetary damages) whether laches is available as a defense. This author predicts that the Supreme Court will hold in *SCA v. First Quality*<sup>1</sup> that laches is not available where there is an explicit statute of limitations. In so doing, the Supreme Court will harmonize equitable defenses in intellectual property disputes by following its ruling in the analog copyright case *Petrella*<sup>2</sup> from three years ago.

*Petrella* held that laches is not available as a defense in copyright cases because the relevant statute of limitations itself already takes account of delay. To be sure, the reasons why laches should be a bar in the patent realm are different<sup>3</sup> and are actually very compelling because removing that defense disables courts from addressing the inequity of delay. However, those public policy arguments are for Congress to address, not the Supreme Court. Thus, this author fully expects the Supreme Court to reverse, especially since it rarely accepts cert to affirm the Federal Circuit.<sup>4</sup> Moreover, the outcome in *SCA* will probably be more decisive than in *Petrella*.<sup>5</sup>

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<sup>1</sup> *SCA Hygiene Products Aktiebolag v. First Quality Baby Products, LLC*, No. 15-927, was argued on November 1, 2016.

<sup>2</sup> *Petrella v. Metro-Goldwyn-Mayer*, 134 S. Ct. 1662 (2014). Notably, the majority opinion, joined by Justices Thomas, Alito, Sotomayor, Kagan, and Scalia, was written by Ginsburg and dissented by Breyer. Later, this author will show how this unlikely make-up almost forecloses a victory by the respondents, First Quality. Notably, in *Petrella*, the majority noted that the US Supreme Court had not yet had the opportunity to review *Aukerman Co. v. R.L. Chaides Construction Co.*, 960 F.2d 1020 (Fed. Cir. 1992), a Federal Circuit case decided *en banc* which held that laches is available in all patent cases.

<sup>3</sup> These differences include: 1) economic realities affect delay differently for copyright (generally more valuable at beginning of its life) than patent (more valuable near or after IP term), thus affecting damages (and why NPEs tend to purchase old but unexpired patents for litigation value); 2) copyright infringement is an intentional tort while patent infringement is strict liability, thus independent invention is not a defense therein, 3) copyright damages are limited to preceding three years while patent damages are the preceding six; 4) a single copyrighted work typically does not affect more than a handful of works while a patent's reach is amplified.

<sup>4</sup> At the time of this writing, the Federal Circuit is 0-2 in cases affirmed.

<sup>5</sup> As this author argues later, a 6-2 decision is entirely possible. *Petrella* was a 6-3 decision (where Justice Scalia was already in the majority and likely to side with his longtime friend, Justice Ginsburg, who may also author the majority in *SCA* as well).

The basic test of laches<sup>6</sup> is whether there is prejudice to the other side. Prejudice can take the form of economic or evidentiary prejudice.<sup>7</sup> Economic prejudice manifests when a defendant (and others) “suffer the loss of monetary investment or damages which likely would have been prevented by earlier suit.”

Laches is an equitable defense. Typically, laches cannot bar legal remedies, i.e., those at law, e.g., monetary damages, if there is an explicit statute of limitations. Thus, laches is used as a gap-filler if there is no stated statute of limitations. Once *Petrella* jettisoned the availability of laches in copyright law, where there was a stated statute of limitations, only one area of federal law that allowed laches where there was a stated statute of limitations remained: patent law. This was due to the Federal Circuit’s *en banc* decision in *Aukerman*. The Supreme Court has repeatedly admonished the Federal Circuit that patent cases should not be treated differently than any other civil litigation. With that basic understanding, one can better comprehend the nature of the dispute in *SCA*.

The dispute in *SCA* concerns manufacturers of adult incontinence products.<sup>8</sup> One year after the patent issued in the U.S., in 2003,<sup>9</sup> SCA sent correspondence to First Quality that it was infringing SCA’s patent. First Quality responded that the patent was invalid. Until suit in 2010, no more correspondence occurred.

During the interim, in 2004, SCA requested re-examination, a public proceeding before the U.S. Patent and Trademark Office, and it confirmed in 2007 the patentability of all of the claims (and others added during re-examination).<sup>10</sup> After 2007, First Quality invested

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<sup>6</sup> Laches, which requires prejudice, is the unreasonable delay in taking action, e.g., asserting a right or a claim. Acquiescence involves intentional conduct.

<sup>7</sup> The issue of evidentiary prejudice was not at issue in *SCA*. However, many *amici* briefed that issue extensively.

<sup>8</sup> The parties are neither non-practicing entities (“*NPE*”) nor patent assertion entities (“*PAE*”), also known as patent trolls. Rather and importantly, the parties involved make, sell, and use products, i.e., the opposite of NPEs or operating companies. Many of the *amici* discussed serious issues with NPEs who become PAEs and how they game the system once an operating company gets ‘locked in’ to using or incorporating patented technology after investing enormous sums of money. In fact, some of the *amici* currently have cases either before the US Supreme Court or other pending litigation, and in at least one case, against each other.

<sup>9</sup> This author, a father, wonders how it took so long for an “Absorbent Pants Type Diaper” to get a patent and not until 2002! Of course, this practitioner, a registered patent attorney, knows that the answer lies in the procedure, i.e., the patent was a PCT application (filed in 1993) that traversed the USPTO’s appellate process by winning, in part, its original appeal at the (formerly named) Board of Patent Appeals and Interferences as well as winning a request for rehearing therein. *In this practitioner’s experience, the patent at issue may be the longest from 371 date (1993) to end of patent term (April 23, 2019)*. This is true since the patent was a utility application pending on June 8, 1995, which would make the patent term in the U.S. the *longer* of 17 years from issue or 20 years from earliest filing of a non-provisional.

<sup>10</sup> For patents with an effective filing date prior to March 16, 2013, re-examination is a process whereby a third party or the patentee can have a patent reexamined by the USPTO to verify that the subject matter it claimed was patentable. Under the America Invents Act (AIA), it made substantial changes such that for patents filed on or after said date, Post-Grant Review (PGR) is the mechanism for challenging the validity during the nine-month

significant capital (millions) in its allegedly infringing product line, and SCA knew of the potential for lock-in<sup>11</sup> by First Quality. Three years after confirmation of patentability by the USPTO and seven years after the last correspondence between the parties, SCA filed suit, which was dismissed due to laches and equitable estoppel.<sup>12</sup>

In 2014, a panel of the Federal Circuit affirmed on laches reasoning that it was bound by its prior *en banc* decision in *Aukerman*.<sup>13</sup> Rehearing *SCA en banc*, the Federal Circuit re-affirmed, in a close 6-5 decision, the determination in *Aukerman* that laches was codified in the Patent Act (at 35 USC §282),<sup>14</sup> thus foreclosing any future decision on laches. The majority also concluded that another section of the Patent Act (§286) was not a statute of limitations section—though that is the title—but a damages-limitation section even though the majority admitted there was “no relevant functional difference.” This finding was important in light of the Supreme Court’s decision in copyright, which held that laches cannot apply to legal relief when there is an explicit statute of limitations. The dissent castigated the majority for continuing a special rule only for patent cases despite the fact that the majority could identify “no case in which [the Supreme Court] ha[d] approved the application of laches to bar a claim for damages brought within the time allowed by a federal statute of limitations.”<sup>15</sup> The Supreme Court granted cert, and a decision is expected soon.

In the evolving relationship between the Supreme Court and the Federal Circuit, this author expects another slap down against it. Despite real concerns that laches plays a critical

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window immediately following patent issuance while Inter Partes Review (IPR) is the mechanism for challenging the validity after the nine-month window and applies only to a limited set of invalidity claims. The patent at issue employed the older re-examination process.

<sup>11</sup> Lock-in can occur from sunk investments or an adoption of standards that lock an accused infringer into a certain technology. These investments or an adoption then erect a potentially insurmountable barrier of high costs that an operating company must incur to stop using the allegedly patented technology at the time of the litigation. Respondents and their *amici* rightfully argued that had a patentee not strategically waited, these operating companies could have previously paid much lower costs to select an alternative technology, entered into a license, or litigated then.

<sup>12</sup> As its name implies, equitable estoppel is an equitable defense. However, none of the parties contest its availability at law or in equity to bar an entire suit due to, for example, misconduct before the USPTO or where a patent holder (or licensee) misled another party into concluding that it could make, use, or sell the patented item, only to be sued at a later time.

<sup>13</sup> In *SCA*, the Federal Circuit reversed summary judgment on equitable estoppel and is not at issue. Notably, the panel concluded—arbitrarily in this author’s view—that SCA should have, after re-examination in 2007, placed First Quality on notice despite the fact that re-examination is a public proceeding.

<sup>14</sup> This statute broadly sets out defenses available in a patent infringement or validity suit by listing three categories of defenses with a catch-all provision.

<sup>15</sup> The majority in *Petrella* made the very same argument in support of its holding. Of course, the majority in *Petrella* never reconciled the following language that federal courts may “appl[y] equitable doctrines that may toll or limit the time period” for suit when applying a statute of limitations, because a statutory “filing period” is a “requirement” subject to adjustment “‘when equity so requires.’” *Nat’l Railroad Passenger Corp. v. Morgan*, 536 U. S. 101, 121-122 (2002) (quoting *Zipes v. Trans World Airlines, Inc.*, 455 U. S. 385, 398 (1982)). This author doubts that the Supreme Court will reconcile that language in *SCA* either.

role in protecting legitimate business activity and may rightly help attenuate substantial litigation bargaining power due to asymmetric litigation advantages inherent to NPEs over operating companies, the Court will most likely look to the plain meaning of the relevant statutes and how they exist in their overall context. The copyright regime is quite analogous to the patent regime in these key areas. Both regimes are creatures of Congress.

Notably, *amicus* Dell, on behalf of multiple other *amici*, provided compelling reasons to keep laches as a defense. During oral argument, Justice Breyer, who wrote the dissent in *Petrella*, cited the Dell brief at least four times and the concerns it identified. The real focus of the Dell brief, however, concerned NPEs and PAEs. The parties in *SCA* are neither. Additionally, the Dell brief provided numerous examples that certainly caught the eye of Justice Breyer (and this author too). Again, these go toward policy arguments for changing the law and not toward a plain reading of the relevant statutes, which controls how this case will be decided.

This author readily envisions a 5-3 result along the same, but atypical lines of justices from the *Petrella* case. However, this author could see a more decisive outcome since Justice Breyer and his two dissenting cohorts would need to distinguish *Petrella* since, as he stated, “it is the law . . . at least [] tentatively.” He may well be able to convince himself that the issue of plaintiff patent holders ‘lying in wait’ is so great, that the risk to patent defendants is exponentially greater than copyright defendants. Yet, this author finds it less probable that he will also convince the Chief Justice let alone any of the judges from the *Petrella* majority, including Ginsburg, who wrote that opinion.<sup>16</sup> Thus, this author predicts a more decisive outcome in reversing the Federal Circuit.<sup>17</sup> Moreover, this author would not be surprised to see a concise concurrence reminding Congress that it may overrule the (expected) judgment in *SCA* simply by amending the Patent Act with a clear directive to include laches as a defense, conduct it could have taken long ago.<sup>18</sup>

In the final analysis, *SCA* will represent an important case in patent litigation. The Supreme Court will have harmonized with all civil litigation the availability—or lack thereof—of equitable defenses in intellectual property litigation. In so doing, the next real fight (for Dell and other operating companies in their war with NPEs and PAEs) will move to Congress.

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<sup>16</sup> During oral argument, she even stated that she saw no difference between the copyright and patent regimes. Additionally, the Chief Justice eviscerated First Quality’s argument that there was a “mountain” of cases supporting its position where Justice Roberts referred to it as a “mole hill” after the Respondent admitted that the cases were (inapplicable) cases in equity.

<sup>17</sup> If this author had greater confidence that the only two Republican-appointed dissenters from *Petrella* would both conclude that it was controlling, a 7-1 decision would not be entirely out of the realm.

<sup>18</sup> It is not lost on this author that a counter-argument is that if Congress knew of *Aukerman* and allowed it to stand for twenty years, i.e., that laches was a bar, why didn’t it act already.