Westlaw Journal
INTELLECTUAL PROPERTY
Litigation News and Analysis • Legislation • Regulation • Expert Commentary
VOLUME 23, ISSUE 15 / NOVEMBER 16, 2016

PATENT

Justices Hear Clashing Arguments Over Laches Defense to Patent Suits

By Patrick H.J. Hughes

Two diaper manufacturers have presented to the U.S. Supreme Court reasons for and against letting patent infringement defendants take advantage of the laches doctrine, an equitable defense applied when a plaintiff waits too long to sue.

SCA Hygiene Products Aktiebolag et al. v. First Quality Baby Products LLC et al., No. 15-927, oral argument held (U.S. Nov. 1, 2016).

First Quality Baby Products said the U.S. Court of Appeals for the Federal Circuit properly recognized the defense as necessary to protect alleged infringers prejudiced by a patent owner's delay in bringing suit, and the high court should, too.

SCA Hygiene Products, on the other hand, said the high court should rule as it did in *Petrella v. Metro-Goldwyn-Mayer Inc.*, 134 S. Ct. 1962 (2014), which abolished laches for copyright cases.

At oral argument Nov. 1, the parties discussed the differences between copyright and patent law to see if the court's reasoning in *Petrella* could be applied to patent cases.

They also debated whether giving courts discretion to allow the laches defense would frustrate Congress' intent in enacting the Patent Act, which contains a six-year time limit on filing suit and does not mention laches.

EXPERTS' REACTIONS

J. Michael Jakes, a partner at Finnegan, Henderson, Farabow, Garrett & Dunner in Washington, who is not involved in the case, described the decision the high court has to make.

"The issue in the case ... is whether the judge-made equitable doctrine of laches survives the six-year limitation on damages provided by Congress," he said, noting that in *Petrella*, laches did not survive a similar limitations period in copyright law.

"Although there are obvious differences between copyrights and patents, the Supreme Court has been unwilling recently to make special rules for patent cases," he said.

John DiMatteo, a partner at Holwell Shuster & Goldberg in New York, who is not involved in the case, predicts that "the court will follow the logic of *Petrella* and preclude the defense of laches in patent cases."

At argument Justice Ruth Bader Ginsburg, who wrote the *Petrella* opinion, appeared to want to "follow her previous logic and deny the defense of laches in patent cases," DiMatteo said.

An egregious patent holder can wait for a company to invest before bringing suit and collecting profits from the alleged infringers' most profitable years, First Quality said.

Justice Ginsburg seemed to be joined by Justices Sonia Sotomayor, Samuel Alito and Elena Kagan, he noted.

Ha Kung Wong, a New York-based partner of Fitzpatrick, Cella, Harper & Scinto, who is not involved in the case, also said the court appeared to be leaning toward eliminating laches in patent suits.

Before the oral argument, Wong had warned that "the elimination of this long-standing defense could potentially expose the innovative industry to increased abusive litigation tactics resulting in undue damages or forced settlements based on weak or frivolous patent claims."

Afterward, Wong observed that the justices seemed swayed by SCA Hygiene's reasoning that "in the patent context, damages are limited to a reasonable royalty ... and limited to only six years, so the cost to the innovator would not be that significant."

Christopher K. Larus, partner at the Minneapolis office of Robins Kaplan LLP, who is not involved in the litigation, also said the court, including Chief Justice John Roberts, appeared to lean in favor of barring laches in patent cases.

However, Larus also observed that the justices — Justice Stephen Breyer in particular — raised concerns about how patent owners and those accused of infringement would be affected if laches were no longer available as a defense.

"Maintaining the status quo would generally be favorable for companies facing patent infringement claims, who may seek to use a laches defense to avoid large damage awards where a patent holder's delay in bringing suit has either made it harder to defend the case or led the defendant to make economic decisions based on the expectation that no suit would be brought," Larus said.

THE DIAPER PATENT SUIT

The controversy stems from U.S. Patent No. 6,375,646, which covers SCA Hygiene's "absorbent pants-type diaper."

Beginning in 2003 SCA Hygiene, a paper-products maker headquartered in Stockholm, sent letters accusing First Quality Baby Products, a New York-based hygienic supply company, of infringing the '646 patent. However, SCA Hygiene did not sue First Quality until 2010.

After several years of litigation, First Quality moved for summary judgment based on laches.

U.S. District Judge Joseph H. McKinley Jr. of the Western District of Kentucky granted the motion. *SCA Hygiene Prods. v. First Quality Baby Prods.*, No. 10-cv-122, 2016 WL 3776173 (W.D. Ky. July 16, 2016).

In September 2014 a three-judge Federal Circuit panel affirmed. *SCA Hygiene Prods. v. First Quality Baby Prods.*, 767 F.3d 1339 (Fed. Cir. 2014).

A year later, a split en banc Federal Circuit court also affirmed. *SCA Hygiene Prods. v. First Quality Baby Prods.*, 807 F.3d 1311 (Fed. Cir. 2015).

SCA Hygiene filed a certiorari petition in January, and the high court agreed in May to decide the issue.

COPYRIGHT VS. PATENT

During the oral argument, SCA Hygiene reminded the justices that they held in *Petrella* that a statute with an express limitations period should not have that time period shortened with the laches doctrine.

"Injecting judicial discretion into the statutory scheme would frustrate the will of Congress and create uncertainty about something as fundamental as the timeliness of suit," SCA Hygiene argued.

However, Justice Breyer, who wrote the dissent in *Petrella*, said the differences between the two intellectual property law areas were relevant to whether laches should still apply in patent suits.

Copyright law's limitation period only allows damages from profits earned during the statutory period minus the costs to produce those profits, Justice Breyer said.

In a patent dispute, a company might spend hundreds of millions of dollars on research and development in reliance on a technology, only to be sued later for all the profits from a particular patent, he explained.

First Quality reiterated Justice Breyer's distinction and added that unlike in copyright law, patent infringement is a strict liability offense, as "independent invention is no defense."

Copyright law requires knowledge that a work is infringing, and the potential infringer "can always choose some other form of expression," First Quality said, noting that accused patent infringers do not have such an option.

An egregious patent holder can wait for a company to invest before bringing suit and collecting profits from the alleged infringers' most profitable years, First Quality said.

This fear of "patent trolls" is unwarranted, SCA Hygiene said, noting that principles of estoppel can still apply to punish misleading conduct.

"And if you search for cases where so-called patent trolls have been barred by laches, you will find very, very few," SCA Hygiene said.

This fear of "patent trolls" is unwarranted, SCA Hygiene said.