Client Alert

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En Banc Federal Circuit Reaffirms Laches as a Defense to Patent Infringement Damages

The en banc US Court of Appeals for the Federal Circuit issued its opinion today in *SCA Hygiene Products Aktiebolag, et al. v. First Quality Baby Products, LLC, et al., Case No. 2013-1564.* In a 6-5 decision, the court reaffirmed that laches is a defense to a suit for damages for patent infringement. In reaching this decision, the Federal Circuit distinguished *Petrella v. Metro-Goldwyn-Mayer, Inc.*, 134 S. Ct. 1962 (2014), in which the US Supreme Court held that laches is not a defense to a suit for damages under the Copyright Act.

Background

SCA Hygiene Products owns U.S. Patent No. 6,375,646 (the '646 patent), which relates to certain adult incontinence products. In October 2003, SCA Hygiene sent a letter to First Quality Baby Products suggesting that First Quality's products infringe the '646 patent. First Quality responded in writing a month later and advised SCA Hygiene that its research indicated that there was a prior patent, U.S. Patent No. 5,415,649, that invalidated the '646 patent. The two companies corresponded for several more months about other products and patents, but had no further discussion regarding the '646 patent.

In July 2004, SCA Hygiene filed an *ex parte* reexamination request for the '646 patent. It did not advise First Quality of this action. In March 2007, the PTO confirmed the patentability of all 28 of the original claims of the '646 patent as well as several new claims.

Meanwhile, starting in 2006, First Quality began expanding its line of adult incontinence products. Its expansion continued for several years, with an investment of more than $10 million.

In August 2010, SCA Hygiene filed an infringement suit against First Quality. SCA Hygiene claimed that during the three-year period — from the conclusion of the reexamination to the filing of suit — it was implementing new business management structures, evaluating outside counsel and examining potentially infringing products on the market.

A total of six years and nine months passed from the time SCA Hygiene first notified First Quality of a potential infringement to the time SCA Hygiene filed suit. First Quality filed a motion for summary judgment on several grounds, including laches. The district court granted the laches motion, and the Federal Circuit affirmed. The Federal Circuit then granted SCA Hygiene's petition for rehearing en banc to determine whether, and to what extent, laches remains a defense in a patent infringement action in light of the Supreme Court's decision in *Petrella v. Metro-Goldwyn-Mayer, Inc.*, 134 S.Ct. 1962 (2014).

The Supreme Court's Decision in *Petrella*

In *Petrella*, the plaintiff claimed a copyright interest in a screenplay on which the film *Raging Bull* was based. After years of back and forth with the defendants, she filed a suit for copyright infringement. The defendants asserted that the claim was barred by laches and filed a motion for summary judgment. The motion was granted by the district court and affirmed by the Ninth Circuit Court of Appeals. Plaintiff appealed the ruling to the United States Supreme Court, which reversed.

The Supreme Court began its analysis with reference to the Copyright Act ("Act"). The Court observed that the Act contains a statute of limitations that provides: "No civil action shall be maintained under the [Act] unless it is commenced within three years after the claim accrued." *Id.* at 1967 (citing 17 U.S.C. §507(b)). The Court further observed that "each infringing act starts a new limitations period." *Id.* at 1969. Thus, under the Act an infringer may be liable for damages that accrued during the three years prior to filing suit but "is insulated from liability for earlier infringements of the same work." *Id.*

The Court then considered the traditional role of laches. The Court noted that the "principle application" of laches is "to claims of an equitable cast for which the Legislature has provided no fixed time limitation." *Id.* at 1973. The Court held that "in face of a statute of limitations enacted by Congress, laches cannot be invoked to bar legal relief." *Id.* at 1974. The Court left open the possibility that delay by the plaintiff might impact equitable relief, such as an injunction and disgorgement of profits. *Id.* at 1978-79.

The Laches Defense Under *Aukerman*

The Patent Act, under the heading "Time Limitation on Damages," provides: "Except as otherwise provided by law, no 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." 35 U.S.C. §286. This is commonly referred to as the six-year lookback period.

In addition to the statutory limitation on damages, courts have applied laches to patent infringement suits — even where acts of infringement occurred within the six-year lookback period. The seminal case is *A.C. Aukerman Co. v. R.L. Chaides Constr. Co.*, 960 F.2d 1020 (Fed. Cir. 1992) (en banc). In that case, the Federal Circuit held that laches may apply to bar a damages claim if the accused infringer proves by a preponderance of the evidence that a patentee (1) unreasonably and inexcusably delayed filing an infringement suit (2) to the material prejudice of the accused infringer. *Id.* at 1032. Even when these two elements are proven, the court retains discretion to determine whether laches should be applied. *Id.* at 1036. Under *Auckerman*, when laches is applied, it bars all retrospective relief for damages that accrued prior to filing suit, but does not bar prospective relief or damages that accrue after suit is filed. *Id.* at 1041.

Auckerman also held that a delay of more than six years in filing suit creates a presumption that both of the laches elements are met. *Id.* at 1035-36. The presumption shifts the burden of production from the accused infringer to the patentee, but it shifts back if the patentee meets the burden with respect to at least one of the elements. *Id.* at 1038.

SCA Hygiene En Banc Decision

Today, the Federal Circuit reaffirmed *Auckerman*, and distinguished *Petrella*. The court held that Congress "codified a laches defense in 35 U.S.C. §282(b) that may bar legal remedies." Opinion at 5. On this basis, the court concluded that the laches defense could apply even if the suit seeks damages for infringement that occurred within the six year lookback period. Consistent with *Auckerman*, the defense may bar pre-suit damages, but it does not preclude a prospective royalty. The court did make one adjustment to the laches defense. The decision holds that laches may bar injunctive relief. *Id.* at 41. The dissent concurred in this final point.

What Happens Next?

Auckerman has been applied in patent cases for more than two decades. Today's ruling reaffirms that precedent, but some may find it hard to reconcile with the Supreme Court's decision in *Petrella*. Five justices dissented. Thus, a request for further review by the Supreme Court may be on the horizon.

Contacts

Wendy C. McGraw
wmcgraw@hunton.com

Maya M. Eckstein
meckstein@hunton.com