Laches do not trump six-year limit on damages

THE CASE:
SCA Hygiene Products Aktiebolag v First Quality Baby Products, LLC
Supreme Court of the US
21 March 2017

SCOTUS significantly reduced the use of the laches defence in US patent litigation. **Kenneth R Adamo**, **Eugene Goryunov** and **Noah S Frank** explore

In *SCA Hygiene Products Aktiebolag v First Quality Baby Products, LLC*, the Supreme Court of the US (SCOTUS) held that "[l]aches cannot be interposed as a defence against damages where the infringement occurred within the period prescribed by § 286."[1] This article discusses that holding.

Procedural background

SCA Hygiene Products Aktiebolag ("SCA") asserted that First Quality Baby Products, ("First Quality") was infringing US patent no 6,375,646 ("the '646 patent"), which claims an absorbent pants-type diaper. First Quality responded by stating that its own patent, US patent no 5,415,649 ("the Watanabe patent"), disclosed the same diaper construction as the '646 patent, such that the '646 patent was invalid. SCA then filed an *ex parte* reexamination proceeding at the US Patent and Trademark Office ("PTO") in order for the PTO to consider the validity of the '646 patent in light of the Watanabe patent. The PTO issued a reexamination certificate in March 2007 confirming the validity of all claims of the '646 patent.

SCA then filed a patent infringement action against First Quality, asserting infringement of the '646 patent. First Quality moved for summary judgment, arguing that SCA's claim was barred by laches and equitable estoppel. The US District Court for the Western District of Kentucky granted summary judgment on both grounds.[2] After SCA appealed to the US Court of Appeals for the Federal Circuit, but prior to a decision, SCOTUS decided *Petrella v Metro-Goldwyn-Mayer, Inc*.[3] There the court held that "laches cannot preclude a claim for damages incurred within the Copyright Act's three-year limitations period."[4] Rather than applying the holding of *Petrella* in the patent context, the Federal Circuit affirmed the lower court's holding that SCA's claims were barred by laches. On rehearing *en banc*, the Federal Circuit again affirmed, stating that "in § 282, Congress codified a laches defence that barred recovery of legal remedies".[5] Notably, the Federal Circuit reversed the lower court's finding of equitable estoppel, holding that disputes of fact precluded summary judgment.

SCA petitioned for *certiorari* to SCOTUS, which was granted.

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SCOTUS' decision[6]

Majority opinion

The court addressed "whether *Petrella's* reasoning [that laches cannot preclude a claim for damages incurring with the Copyright Act's three-year limitations period] applies to a similar provision of the Patent Act."[7]

The court began its analysis by explaining that laches was an equitable defence that traditionally only applied in courts of equity, not courts of law. Regarding its holding in *Petrella*, the court explained that laches served to provide "a shield against untimely claims", and noted that "statutes of limitations serve a similar function".[8] Allowing laches to apply where Congress had already enacted a statute of limitations would "give judges a legislation-overriding role", the court said, because "[l]aches is a gap-filling doctrine, and where there is a statute of limitations, there is no gap to fill".[9]

With that background in mind, the court applied the logic of *Petrella* to the corresponding patent statute, holding that 35 USC § 286 "represents a judgment by Congress that a patentee may recover damages for any infringement committed within six years of the filing of the claim".[10]

The majority then addressed First Quality's argument that *Petrella* did not apply because Section 286 of the Patent Act is not a true statute of limitations: rather than running forward from the time the action accrues, it runs backward from the date a suit is filed. The court did not find this argument persuasive, stating that the "argument misunderstands the way in which statutes of limitations generally work".[11] Rather than beginning to accrue when a "plaintiff knows of a cause of action", the court stated that claims accrue when the "plaintiff has a complete and present cause of action". The discovery rule, further, by which the limitations period begins to run when the plaintiff discovers or should have discovered the injury, does not always apply to statutes of limitation. In fact, the court noted that it had not ruled on whether the discovery rule applies to copyright cases, such that "*Petrella* cannot be dismissed as applicable only to what First Quality regards as

true statutes of limitations."[12]

The majority then addressed the basis for the Federal Circuit's decision. According to the Federal Circuit, because 35 USC § 286 contains the proviso "[e]xcept as otherwise provided by law", 35 USC § 282 creates an exception by codifying laches as a defence. The Federal Circuit supported this holding on the basis of a survey of a number of lower court cases decided prior to the enactment of the Patent Act in 1952, which, it said, showed that there was a "well-established practice of applying laches to such damages claims and that Congress, in adopting § 282, must have chosen to codify such a defence."[13]

The court considered those cases, saying that "[t]he most prominent feature of the relevant legal landscape at the time of enactment of the Patent Act was the well-established general rule, often repeated by this court, that laches cannot be invoked to bar a claim for damages incurred within a limitations period specified by Congress."[14] Given this "well-established" rule, the court explained that "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."[15] Considering the cases as three separate groups – (1) cases at equity before 1938, (2) cases at law before 1938, and (3) cases decided after the merger of law and equity in 1938 – the court found no such consensus.

First, the court considered the pre-1938 equity cases, but dismissed them as either making no mention of the form of relief sought, either seeking the equitable remedy of an accounting, only discussing laches in *dicta*, or being "too few to establish a settled national consensus." Secondly, the court considered the pre-1938 cases at law, but dismissed these as too few in number and for failing to mention the statute of limitations. Lastly, the court considered post-merger cases, dismissing two cases as dicta and the remaining two – which actually held that laches could bar a damages claim – as too few to demonstrate a "uniform practice of applying laches to damages claims".[16] Because the cases did not show this "uniform practice", the court was "not convinced that Congress, in enacting § 282 of the Patent Act, departed from the general rule" that laches does not apply to bar a claim brought within the limitations period.[17]

The court did note that equitable estoppel could provide protection in certain situations, such as where a patentee induces an infringer to invest in the production of infringing products, and that there was still a dispute of fact as to whether equitable estoppel would bar the claims in the present case.

Dissenting opinion

Justice Breyer authored a dissenting opinion in which he explained that the statutory language and history made clear that laches works to "fill the gap" caused by § 286's rearward-looking limitations period which would allow a patentee to "unreasonably and prejudicially delay[] suit".[18] He pointed out that the majority's attempt to minimise the overall thrust of the case law by dividing the cases into tiny subgroups was disingenuous because "*all the cases say the same thing:* Laches applies".[19] He also pointed out that there were adequate grounds to limit *Petrella*'s holding to copyright law due to the differences between copyrights and patents. For instance, Justice Breyer noted that patent law had contained a six-year statute of limitations since 1897, suffers from problems of "lock-in" which prevents switching to a non-infringing alternative, and contains no provision for an accused infringer to offset expenses incurred in generating a profit. Because of these numerous differences between patent and copyright law, and because he believed *Petrella* to be wrongly decided, Justice Breyer urged that *Petrella's* holding not be extended, as there were adequate grounds to distinguish the case.

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Summary

SCA Hygiene Products Aktiebolag v First Quality Baby Products, LLC, then, holds that laches cannot bar a patent infringement suit brought within the six-year statutory time period. While this holding removes an infringement defence to a delayed suit, the court made clear that equitable estoppel may act to cover cases where laches are no longer available. While the standard to prove equitable estoppel is higher than that of laches, requiring that the defendant rely on the patentee's actions – or inaction as the case may be – it still remains as a defence against the "unscrupulous patentee".

Footnotes

1. No 15-927, 2017 WL 1050978, at *12 (US 21 Mar 2017) (slip op).
2. *SCA Hygiene Prod Aktiebolag v First Quality Baby Prod, LLC*, No 1:10CV-00122-JHM, 2013 WL 3776173, at *8, 12 (WD Ky 16 July 2013).
3. 572 US __, 134 SCt 1962 (2014)
4. *SCA Hygiene*, 2017 WL 1050978, at *3-4.
5. *SCA Hygiene Prod. Aktiebolag v First Quality Baby Prod., LLC*, 807 F.3d 1311, 1328 (Fed Cir 2015) (*en banc*).
6. Justice Alito delivered the opinion of the court. Justice Breyer filed a dissenting opinion, explaining the historical application of both laches and the statute of limitations in patent law.
7. *SCA Hygiene*, 2017 WL 1050978, at *3.
8. Id at *5.
9. Id
10. Id at *6.
11. Id at *7.
12. Id
13. Id at *8.
14. Id
15. Id at *9.
16. Id at *11.
17. Id at *12.
18. 2017 WL 1050978, at *13 (Breyer, J, dissenting).
19. Id at *18 (emphasis original).

Authors



Kenneth R Adamo (top left) and Eugene Goryunov (top right) are partners at Kirkland & Ellis.

Noah S Frank (bottom left) is an IP litigation associate in the Washington, DC office of Kirkland & Ellis.

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