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WAIT FOR IT: "UNREASONABLE DELAY" IN BRINGING SUIT IS NO LONGER A DEFENSE IN PATENT CASES

The U.S. Supreme Court recently issued a 7-1 ruling in *SCA Hygiene*[1] that eliminated the common-law defense of laches in patent infringement cases. The Supreme Court reasoned that laches is a "gap-filling doctrine" that does not apply to patent law because a federal statute already prevents patent owners from collecting damages for any infringement occurring six or more years before they filed an infringement suit.

While laches was rarely successful as a patent defense, companies should be mindful of how *SCA Hygiene* might incentivize patent owners to wait longer before filing lawsuits and the effect this might have on planning for litigation.

LACHES DEFENSE BEFORE *SCA HYGIENE*

The common-law equitable defense of laches has existed since the beginnings of the U.S. court system, and the Federal Circuit confirmed in 1992 that accused infringers may advance this defense in patent infringement suits.[2] The purpose of laches in patent cases was to prevent patent owners from sitting on their rights after learning of infringement and later collecting damages for infringement that may have been prevented if the patent owner acted earlier.

Accordingly, laches required defendants to prove two elements: (1) unreasonable delay and (2) material prejudice.[3] Unreasonable delay was established when a patent owner acquired actual or constructive knowledge of the infringement but failed to sue within a reasonable time thereafter. As to the second element, material prejudice could be economic (*i.e.*, significant investment or business expansion that the accused infringer would not otherwise have made) or evidentiary (*i.e.*, loss of records, deceased witnesses, and/or failed memories). Though seldom successful, a meritorious laches defense afforded the court discretion to bar pre-suit economic damages.[4]

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1. *SCA Hygiene Prods. Aktiebolag v. First Quality Baby Prods.*, LLC, 580 U.S. ___, 137 S. Ct. 954 (2017).
2. *A.C. Aukerman Co. v. R.L. Chaides Constr. Co.*, 960 F.3d 1020 (Fed. Cir. 1992) (en banc).
3. *Id.* at 1028.
4. *Id.* at 1040.

THE SUPREME COURT DECISION

In ending laches as a defense in patent cases, the Supreme Court held that laches is a "gap-filling doctrine" applicable only where Congress has not enacted a statute of limitations.[5] Applying its reasoning in *Petrella*,[6] which ended laches as a defense to copyright infringement, the Court stated that "[t]he enactment of a statute of limitations necessarily reflects a congressional decision that the timeliness of covered claims is better judged on the basis of a generally hard and fast rule rather than the sort of case-specific judicial determination that occurs when a laches defense is asserted . . . . [C]ourts are not at liberty to jettison Congress' judgment on the timeliness of suit."[7] Because the Patent Act contains a six-year statute of limitations for damages, there is no gap to fill—plaintiffs may recover for *any* patent infringement committed within the statutory period.

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This ruling was an outright rejection of the Federal Circuit's prior holding that Section 282(b) of the Patent Act codified the laches defense.[8] On this point, the Supreme Court found "it would be exceedingly unusual, if not unprecedented, if Congress chose to include in the Patent Act both a statute of limitations for damages and a laches provision applicable to a damages claim."[9] The majority also emphasized that another equitable defense, equitable estoppel, still exists to provide protection against unscrupulous patentees in certain cases.[10]

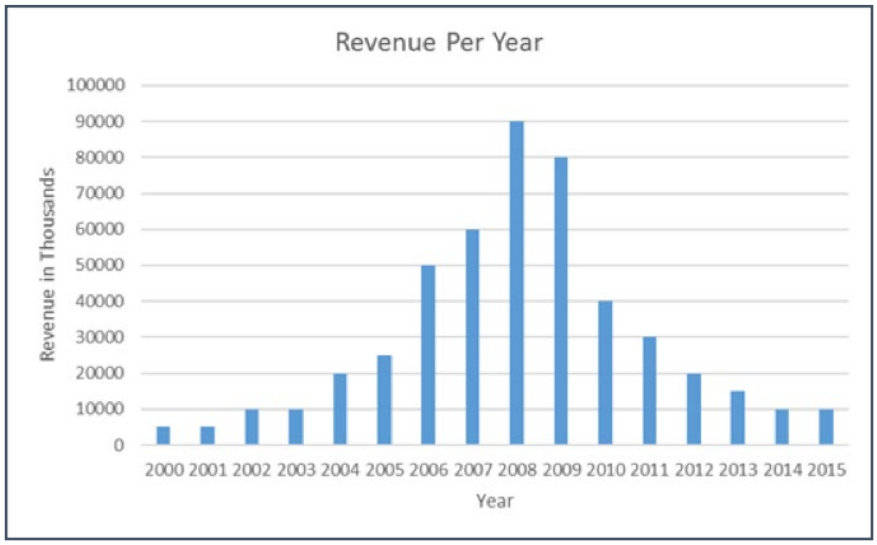
In his dissent, Justice Stephen Breyer warned about the threat of "harmful and unfair legal consequences" due to this "new 'gap' in the patent law" created by the majority opinion.[11] For example, Justice Breyer expressed a concern that "a patentee has considerable incentive to delay suit until the costs of switching—and accordingly the settlement value of a claim—are high."[12]

CHANGING INCENTIVES FOR WHEN TO FILE PATENT LAWSUITS

Consistent with the concerns noted by Justice Breyer, companies should now be mindful of how *SCA Hygiene* changes the incentives for patent owners for when to file a lawsuit. Before *SCA Hygiene*, a company launching a new product could reasonably expect most lawsuits to occur six years after the product launch, if not sooner. But under the new scheme, in some circumstances it may make sense for a patent owner to wait until much later to file suit.

5. *SCA Hygiene*, 137 S. Ct. at 961.
6. *Petrella v. Metro-Goldwyn-Mayer Inc.*, 572 U.S. ___, 134 S. Ct. 1962 (2014).
7. *SCA Hygiene*, 137 S. Ct. at 960.
8. *Id.* at 961–62.
9. *Id.* at 963.
10. *Id.* at 967.
11. *Id.*
12. *Id.* at 972.

For example, consider the graph below, which charts yearly revenue for a fictional product released in the year 2000. After several slow years, the product rapidly gains in popularity, peaks in 2008, and then gradually declines.



"Especially if the public was slow to adopt your product, it may well make sense for patent owners to take a 'wait and see' approach as to their potential infringement claims, allowing the market for the technology-at-issue—and the potential damages—to expand."

Now consider a patent owner whose patent covers the fictional product. Before *SCA Hygiene*, a patent owner watching this product would likely sue by 2006 to avoid the risk of a successful laches defense. Indeed, a patent owner may well sue earlier, given that courts have found laches after just a few years of delay.[13] If the lawsuit is successful, the patent owner might obtain damages for past infringement, as well as a royalty on the remaining revenue over the life of the product. Then again, filing a lawsuit in 2006 might cause the defendant company to research non-infringing alternatives or to abandon production altogether in favor of some other product.

But absent any risk of laches, a patent owner may now choose not to sue in 2006, willingly allowing the statute of limitations to cut off potential recovery for the relatively unsuccessful early years of the product. For instance, a patent owner might wait to sue until 2009, after product revenue had peaked. At that point, the patentee would have a fairly accurate idea of the overall product success to make an informed decision on whether suing is worthwhile and can attempt to leverage a larger revenue base to assert additional settlement pressure.

Thus, it may no longer be safe to assume that your product is out of the woods concerning patent lawsuits after six years. Especially if the public was slow to adopt your product, it may well make sense for patent owners to take a "wait-and-see" approach as to their potential infringement claims, allowing the market for the technology-at-issue—and the potential damages—to expand.

13. *See, e.g., Rosemont, Inc. v. Beckman Instruments, Inc.*, 727 F.2d 1540, 1550 (Fed. Cir. 1984) (affirming laches after "almost three years" of delay).

PRACTICAL CONSIDERATIONS AND TAKEAWAYS

The scenario above is merely one example of how *SCA Hygiene* and the demise of the laches defense will require potential patent litigants to re-evaluate certain conventional litigation strategies. For example, *SCA Hygiene* may motivate patent holders to re-evaluate the older patents in their portfolios and consider launching new infringement suits, notwithstanding any past delay in doing so.

"[P]otential defendants may now more strongly consider taking early, affirmative steps to guard against the late assertion of a patent, including initiating a declaratory judgment action, seeking inter partes review, or exploring non-infringing alternatives."

Further, this change in the law will likely increase the value of some patents and expand the market for patent sales to non-practicing entities (or "patent trolls"), given that the purchase of secondhand patents no longer comes with the baggage of a seller's unreasonable delay.

On the defense side, potential defendants can no longer take comfort in a long delay in the assertion of a patent. Given this reality, potential defendants may now more strongly consider taking early, affirmative steps to guard against the late assertion of a patent, including initiating a declaratory judgment action, seeking *inter partes* review, or exploring non-infringing alternatives. Of course, these affirmative steps require knowledge of a potentially problematic patent—knowledge defendants often do not have pre-suit.

Finally, it must be noted that the laches defense, though routinely pled, was rarely successful in litigation. Thus, the death of this defense is not likely to significantly impact the patent infringement landscape as a whole or the way patent practitioners view the vast majority of their infringement cases. But, by removing the requirement that a patentee promptly surface patent infringement disputes, *SCA Hygiene* is unquestionably a pro-patentee decision that patent plaintiffs will applaud and that frequent patent defendants will cite with disapproval in their broader calls for sweeping patent litigation reforms.