High Court Laches Ruling May Be Much Ado About Nothing

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Law360, New York (March 16, 2017, 12:19 PM EDT) -- Later this year, the U.S. Supreme Court is expected to issue its decision in SCA Hygiene Products Aktiebolag v. First Quality Baby Products LLC.[1] The question in SCA Hygiene is whether laches is available as an equitable bar to presuit damages in patent infringement cases. Although there is a long history of defendants asserting laches in response to infringement allegations, the viability of this defense has been in doubt since the Supreme Court's decision in Petrella v. Metro-Goldwyn-Mayer Inc.[2] Many have expressed concern that, if the Supreme Court does extend the Petrella holding to patent infringement cases, this will destroy a critical check on so-called "patent assertion entities,"[3] or "PAEs."[4] But would a decision striking down laches as an equitable defense in patent cases really be likely to change the dynamic between PAEs and alleged infringers? This article examines recent district court decisions finding that infringement claims were barred by laches, and discusses potential strategies for dealing with a decision in SCA Hygiene that limits the applicability of laches.

During the November 2016 oral argument before the Supreme Court, counsel for First Quality asserted that "there are very few decisions that actually reach a conclusion that laches is applicable. And if you search for cases where so-called patent trolls have been barred by laches, you will find very, very few."[5] This statement appears to be correct — district courts rarely conclude that laches bars patent infringement claims, and a tiny proportion of those decisions were against PAEs. In the past 10 years, courts have granted summary judgment that laches bars presuit infringement damages in only 23 cases (including the underlying district court decision in SCA Hygiene).[6] Of those 23 decisions, only three involved infringement claims by PAEs.[7] The vast majority of decisions granting summary judgment that laches applied were in cases involving competitors or a patentee that practiced in a field relating to the patented technology,[8] while the remaining cases involved either inventorship challenges or claims brought by individual inventors.[9]

Similarly, laches also is rarely granted post-trial. In the last 10 years, there appear to have been only eight written post-trial opinions finding that infringement claims were barred by laches — and only one of those decisions was issued against a PAE.[10]

Notably, the busiest two patent courts in the U.S. — the Eastern District of Texas and the District of Delaware — have hardly ever seen successful laches defenses in patent infringement cases. The District of Delaware has granted only two motions for summary judgment of laches in the last 10 years, while the Eastern District of Texas, which handles more than 40 percent of the nation's patent cases (and the lion's share of PAE cases),[11]

has not issued even a single finding of laches over that same span of time. Successful laches defenses against PAEs are not just rare; in the most popular jurisdictions for PAEs, they are virtually nonexistent.

Moreover, the relatively few decisions holding that patent defendants have established laches frequently also involve an equitable estoppel defense. Equitable estoppel has a broader effect than laches, because it is essentially an implied "license to use the invention that extends throughout the life of the patent."[12] Thus, when equitable estoppel applies, it bars a claim for patent infringement in its entirety; in contrast, laches typically bars only presuit damages. Roughly half of the cases in the last 10 years with a successful laches defense have either held that equitable estoppel also applies,[13] or had at least a colorable equitable estoppel claim asserted.[14] Equitable estoppel claims were statistically even more common in PAE cases in which laches was granted — all but one of those cases involved an equitable estoppel defense.[15]

The foregoing analysis suggests that while laches is currently available to prevent presuit claims for damages by PAEs, the potency of this doctrine is more theoretical than empirical. It may well be that PAEs have refrained from bringing patent claims that they know would be subject to a laches defense, or have been more likely to enter into settlements in cases where a defendant asserts a laches defense (such that there is no written opinion on laches in those settled cases). Even if that has been true for some PAEs, there are many other effective weapons for accused infringers to use against PAEs if the Supreme Court eliminates the laches defense in SCA Hygiene.

First, alleged infringers may be able to assert a claim for equitable estoppel. There is no question that this defense will survive no matter the outcome in SCA Hygiene, and thus it will remain available against PAEs.[16] Because equitable estoppel effectively acts as an implied license that travels with the patent, the conduct by earlier holders of a patent who later sell them to PAEs will be imputed to that downstream purchaser.[17] And while equitable estoppel is typically a difficult defense to prove, it is by no means impossible, having resulted in the dismissal of claims in 10 patent cases in the last decade (two of which involved PAEs).[18]

Second, while laches defenses have occasionally been resolved at the outset of a case, they typically must await summary judgment or trial-stage resolution due to their fact intensive nature. In contrast, in the wake of the Supreme Court's Alice decision, patent claims against PAEs are much more commonly dismissed at the motion-to-dismiss stage based on lack of patentable subject-matter. Indeed, while the Eastern District of Texas has not found that laches applied in a single case in the last 10 years, that court has dismissed computer-based patent claims asserted by PAEs in eight cases in just the last two years alone.[19] Section 101 challenges are much more likely to result in dismissal of claims against PAEs than laches ever was, and at a much earlier stage that laches typically does.

Third, alleged infringers may be able to assert that a lack of patent marking bars recovery of at least some damages under Section 287(a) of the Patent Act. For instance, if a PAE purchased a patent covering an apparatus or product from a company that had not been marking those items with the relevant patent numbers, and the PAE failed to start marking those products, then recovery would likely be barred prior to the time that a complaint for infringement was filed. That would be the identical outcome to a successful laches defense (which bars only presuit damages).[20]

It is by no means a foregone conclusion that the U.S. Supreme Court will strike down the laches defense in SCA Hygiene. While the court's decision in Petrella was 6-3, the court's current bench means that if only one of the justices from the Petrella majority sided with the petitioners in SCA Hygiene, then laches would survive as a potential defense in patent infringement cases. Whatever the outcome of SCA Hygiene, the last decade of case law suggests that laches is of limited utility in defending claims brought by PAEs, and that

other defenses, such as invalidity, estoppel, and failure to mark, will be more effective deterrents and defenses to such suits.

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[1] Case No. 15-927 (U.S. Sup. Ct.).

[2] 134 S. Ct. 1962 (2014).

[3] These "patent-assertion entities" may also be referred to as non-practicing entities (or NPEs), or more pejoratively, as "patent trolls." In this context, these various terms all refer to "firms [that] use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees." eBay Inc. v. MercExchange, LLC, 547 U.S. 388, 396 (2006) (Kennedy, J., concurring).

[4] See, e.g., Ryan Davis, Justices May Take Away Weapon Favored by NPE Defendants, IPLaw360 (Oct. 31, 2016, 10:37 AM EDT), https://www.law360.com/articles/855434/justices-may-take-away-weapon-favored-by-npe-defendants; Robert Abrahamsen, Supreme Court's Imminent SCA Hygiene Decision Could Increase Patent Value for NPEs, ip.com (Dec. 17, 2016), http://ip.com/news/2016/12/supreme-courts-imminent-sca-hygiene-decision-could-increase-patent-value-for-npes/; see also Br. of Dell et al. as Amici Curiae & Br. of Cook Med. LLC as Amicus Curiae, SCA Hygiene Prods. Aktiebolag v. First Quality Baby Prods. LLC, Case No. 15-927.

[5] SCA Hygiene Prods. Aktiebolag v. First Quality Baby Prods. LLC, Case No. 15-927, Oral Argument Tr. at 25 (Nov. 1, 2016).

[6] These cases were identified through primary research on Docket Navigator, by searching for any cases granting a motion for summary judgment of laches between January 1, 2007 and February 23, 2017.

[7] Endotach LLC v. Cook Medical Inc., No. 13-01135, Dkt. No. 229, slip op. at 42-43 (S.D. Ind. Jan. 27, 2015); High Point Sarl v. Sprint Nextel Corp., 67 F. Supp. 3d 1294 (D. Kan. 2014); St. Clair Intellectual Prop.Consultants, Inc. v. Acer, Inc., 961 F. Supp. 2d 610 (D. Del. 2013).

[8] John Bean Techs. Corp. v. Morris & Assocs., Inc., 4:14-CV-00368-BRW, 2016 WL 7974654 (E.D. Ark. Dec. 14, 2016); ThermoLife Int'l, LLC v. Myogenix, Case No. 13cv651 JLS (MDD), 2016 WL 4095967 (S.D. Cal. June 28, 2016); Dane Techs., Inc. v. Gatekeeper Sys., Inc., 135 F. Supp. 3d 970 (D. Minn. 2015); Petter Invs., Inc. v. Hydro Eng'g, Inc., No. 2:14-cv-00045-DB, 2015 WL 222329 (D. Utah Jan. 9, 2015); Everspin Techs., Inc. v. NVE Corp., Civil No. 12-474 ADM/FLN, 2014 WL 988458 (D. Minn. Mar. 13, 2014); Enel Co. v. Lakeland Enters., LLC, Case No. 12-cv-01369-CAB-RBB, 2014 WL 12561128 (S.D. Cal. Feb. 18, 2014); SCA Hygiene Prods. Aktiebolag v. First Quality Baby Products, LLC, Civil Action No. 1:10CV-00122-JHM, 2013 WL 3776173 (W.D. Ky. July 16, 2013); Magna Mirrors of Am. v. 3M Co., Case No. 07-cv-10688, Dkt. No. 243, slip op. (E.D. Mich. June 14, 2013); Avocet Sports Tech. Inc. v. PolarElectro Inc., No. C-12-02234 EDL, 2013 WL 1729668 (N.D. Cal. Apr. 16, 2013); Morpho Detection, Inc. v. Smiths Detection Inc., Civil Action No. 2:11cv498, 2012 WL 5879851 (E.D. Va. Nov. 21, 2012); Crown Packaging

Tech., Inc. v. Rexam Beverage Can Co., 679 F. Supp. 2d 512 (D. Del. 2010); New Medium LLC v. Barco, N.V., 612 F. Supp. 2d 958 (N.D. Ill. 2009); Comcast Cable Comm'ns Corp. v. Finisar Corp., No. C 06-04206 WHA, 2008 WL 170672 (N.D. Cal. Jan. 17, 2008); Abbott Diabetes Care Inc. v. Roche Diagnostics Corp., No. C05-03117 MJJ, 2007 WL 1241928 (N.D. Cal. Apr. 27, 2007).

[9] Lizmont v. Alexander Binzel Corp., Civil Action No. 2:12cv592, 2014 WL 4181586 (E.D. Va. Aug. 20, 2014); Reese v. Sprint Nextel Corp., No. 2:13-cv-03811-ODW (PLAx), 2014 WL 3724055 (C.D. Cal. July 24, 2014); Reese v. Verizon Wireless Servs., Inc., No. 2:13-cv-05197-ODW(PLAx); 2014 WL 1872697 (C.D. Cal. May 9, 2014); Reese v. Tracfone Wireless, Inc., No. 2:13-cv-05196-ODW(PLAx), 2014 WL 1872175 (C.D. Cal. May 9, 2014); Reese v. AT&T Mobility II, LLC, No. 2:13-cv-5198-ODW(PLAx), 2014 WL 1873046 (C.D. Cal. May 9, 2014); Lautzenhiser Techs., LLC v. Sunrise Med. HHC, Inc., 752 F. Supp. 2d 988 (S.D. Ind. 2010).

[10] The lone post-trial decision finding that laches applied against claims brought by a PAE was I/P Engine, Inc. v. AOL Inc., 915 F. Supp. 2d 736 (E.D. Va. 2012). The remaining seven post-trial written decisions all involved practicing entities or a claim by the inventor of the patent himself. See Universal Elecs., Inc. v. Universal Remote Control, Inc., Case No. SACV 12-00329 AG (JPRx), 2014 WL 12587050 (C.D. Cal. Dec. 16, 2014); Romag Fasteners, Inc. v. Fossil, Inc., 29 F. Supp. 3d 85 (D. Conn. 2014); Lendingtree, LLC v. Zillow, Inc., No. 3:10-cv-00439-FDW-DCK, 2014 WL 1309305 (W.D.N.C. Mar. 31, 2014); Medinol Ltd. v. Cordis Corp., 15 F. Supp. 3d 389 (S.D.N.Y. 2014); Mahmood v. Research in Motion Ltd., No. 11 Civ. 5345(KBF), 2012 WL 1801693 (S.D.N.Y. May 16, 2012); Ultimax Cement Mfg. Corp. v. CTS Cement Mfg. Corp., 856 F. Supp. 2d 1136 (C.D. Cal. 2012); Integrated Cards, LLC v. McKillip Indust., Inc., Case No. 06 C 2071, 2009 WL 4043425 (N.D. Ill. Nov. 19, 2009). The foregoing cases were all identified through primary research on Docket Navigator.

[11] See Lisa Shuchman, Eastern Texas Had an 'Astounding' Number of Patent Cases in 2015, Corporate Counsel (Jan. 7, 2016), http://www.corpcounsel.com/id=1202746460787/Eastern-Texas-Had-an-Astounding-Number-of-Patent-Cases-in-2015?slreturn=20170201145402.

[12] High Point Sarl v. Sprint Nextel Corp., 817 F.3d 1325, 1331 (Fed. Cir. 2016) (citation omitted).

[13] John Bean Techs. Corp., 2016 WL 7974654; High Point Sarl, 67 F. Supp. 3d 1294; SCA Hygiene, 2013 WL 3776173; Magna Mirrors, Case No. 07-cv-10688, Dkt. No. 243; Lendingtree, LLC, 2014 WL 1309305; Ultimax, 856 F. Supp. 2d 1136.

[14] ThermoLife, 2016 WL 4095967; Dane Techs., 135 F. Supp. 3d 970; Petter Investments, 2015 WL 222329; Enel, 2014 WL 12561128; St. Clair, 961 F. Supp. 2d 610; Lautzenhiser, 752 F. Supp. 2d 988; New Medium, 612 F. Supp. 2d 958; Integrated Cards, 2009 WL 4043425.

[15] Among the PAE laches cases, only Endotach did not also include an equitable estoppel defense.

[16] SCA Hygiene Prods. Aktiebolag v. First Quality Baby Prods. LLC, Case No. 15-927, Oral Argument Tr. at 25 (Nov. 1, 2016) (noting that equitable estoppel applies to all actions at law and in equity, and will continue to apply "across the board").

[17] High Point Sarl, 817 F. 3d at 1331 (holding that the effect of equitable estoppel "can arise when a predecessor's conduct is imputed to its successors-in-interest").

[18] See supra note 13; see also Scholle Custom Packaging, Inc. v. Grayling Indus., Inc.

Case 1:03-cv-00093-PLM, Dkt. No. 193, slip op. (W.D. Mich. Aug. 9, 2012); Radio Sys. Corp. v. Lalor, No. C10-828RSL, 2012 WL 254026 (W.D. Wash. Jan. 26, 2012); Mass Engineered Design, Inc. v. Ergotron, Inc., 633 F. Supp. 2d 361 (E.D. Tex. 2009); Aspex Eyewear, Inc. v. Clariti Eyewear, Inc., No. 07 Civ. 2373 (DC), 2008 WL 5049744 (S.D.N.Y. Nov. 26, 2008).

[19] Edward Tulin & Leslie Demers, A Look At Post-Alice Rule 12 Motions Over The Last 2 Years, Law360 (Jan. 27, 2017, 12:55 PM EST),https://www.law360.com/articles/882111/a-look-at-post-alice-rule-12-motions-over-the-last-2-years.

[20] See, e.g., Morpho Detection Inc., 2012 WL 5879851, at *11-12 (determining that failure to mark barred all pre-suit damages for infringement).
