En Banc Federal Circuit Holds That Laches Will Still Limit Pre-Complaint Damages In Patent Cases And May Now Even Limit Permanent Injunctive Relief

by David R. Todd

On September 18, 2015, the Federal Circuit issued its *en banc* decision in *SCA Hygiene Products Aktiebolag v. First Quality Baby Products, LLC*. The court held 6-5 that, consistent with its 1992 decision in *A.C. Aukerman Co. v. R.L. Chaides Construction Co.*, laches will bar damages in patent infringement cases even when 35 U.S.C. § 286 does not. The court also held 11-0 that *Aukerman* was incorrect to conclude that laches may never bar permanent injunctive relief.

The Federal Circuit decided to review this case *en banc* because of the Supreme Court's decision last year in*Petrella v. Metro-Goldwyn-Mayer, Inc.* In *Petrella*, the Court concluded that an action for damages for copyright infringement brought within the three-year statute of limitations for copyright actions could not be barred by laches. Patent law does not have a statute of limitations like copyright law, but it does have a damages limitation in 35 U.S.C. § 286. That statute 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." In *Petrella*, the Supreme Court explained in a footnote that unlike the Copyright Act, the Lanham Act for trademark law expressly codifies the doctrine of laches and then explained that the Court had not "had occasion to review" the Federal Circuit's position on laches under the Patent Act as expressed in *Aukerman*. Therefore, the Federal Circuit majority observed that *Petrella* "casts doubt on several aspects" of *Aukerman*.

In *SCA Hygiene*, the Federal Circuit majority began its analysis by concluding that although section 286 is not a statute of limitations as in *Petrella*, "there is no relevant functional difference between a damages limitation and a statute of limitations" for purposes of the analysis applied in *Petrella*. The majority reasoned that both are statutes that bar damages after a certain period of time and therefore both can be read to implicitly allow damages before that time.

However, the majority then concluded that patent law is different from copyright law in that the Patent Act—like the Lanham Act in trademark law—codifies the laches defense, whereas the Copyright Act does not. It is on this point that there were five dissenters, because the

manner in which the Patent Act has codified the laches defense, according to the majority, is not straightforward.

The majority concluded that the laches defense is codified in 35 U.S.C. § 282(b)(1), which reads: "The following shall be defenses in any action involving the validity or infringement of a patent and shall be pleaded: (1) Noninfringement, absence of liability for infringement or unenforceability." Even though this statute does not expressly refer to laches, the majority concluded—based on the legislative history—that it codifies the laches defense. The House Report states that the previous statute (which also did not expressly refer to laches as a defense to damages) was replaced with a statute "stated in general terms, changing the language in the present statute, but not materially changing the substance." However, the Senate Report goes further, stating that the previous statute was "replaced by a *broader* paragraph specifying defenses in general terms." Most significantly, the *Commentary on the New Patent Act* written by P.J. Federico, a principal draftsman of the statute, states that this provision includes "defenses such as that the patented invention has not been made, used or sold by the defendant; license; and equitable defenses *such as laches*, estoppel, and unclean hands." Noting that the Supreme Court itself had previously relied on P.J. Federico's commentary, the Federal Circuit concluded that section 282(b)(1) was intended to codify the defense of laches.

The majority then examined whether the statute codified laches as a defense to damages or only as a defense to injunctive relief. The majority concluded that because Congress remained silent on the content of the laches defense, section 282 should be read to retain "the substance of the common law as it existed at the time Congress enacted the Patent Act." It then observed that "by 1952, nearly every circuit recognized that laches could be a defense to legal relief" and that there were no appellate-level patent cases stating or holding that laches was inapplicable to legal damages. Therefore, the majority concluded that section 282 "codified a laches defense that barred recovery of legal remedies."

The majority then explained that Congress's decision to codify both the damages limitation in section 286 and a laches defense in section 282 but not to do so in the Copyright Act makes

sense as a policy matter. The majority observed that "[b]ecause copyright infringement requires proof of access, a potential defendant is typically aware of a risk that it is infringing and can estimate its exposure when making its initial investment decision," whereas in patent law "the calculus is different." Specifically, "[i]ndependent invention is no defense in patent law, so without laches, innovators have no safeguard against tardy claims demanding a portion of their commercial success."

The court then unanimously held that, contrary to the court's holding in *Aukerman*, laches may result in denial of permanent injunctive relief under the four-part test set forth in the Supreme Court's decision in *eBay Inc. v. MercExchange*. This is because "[m]any of the facts relevant to laches, such as the accused infringer's reliance on the patentee's delay, fall under the balance of the hardships factor" and "[u]nreasonable delay in bringing suit may also be relevant to a patentee's claim that continued infringement will cause it irreparable injury." As a result, the court "reject[ed] *Aukerman*'s bright line rule" precluding laches from barring injunctive relief. However, the court then explained that "absent egregious circumstances, when injunctive relief is inappropriate, the patentee remains entitled to an ongoing royalty."

It now remains to be seen whether this case will end up at the Supreme Court.