No. 15-927

IN THE
Supreme Court of the United States

SCA HYGIENE PRODUCTS AKTIEBOLAG
AND SCA PERSONAL CARE, INC.,

Petitioners,

v.

FIRST QUALITY BABY PRODUCTS, LLC, FIRST QUALITY HYGIENE, INC., FIRST QUALITY PRODUCTS INC., AND FIRST QUALITY RETAIL SERVICES, LLC.

Respondents.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF *AMICUS CURIAE* ASKELADDEN LLC IN SUPPORT OF RESPONDENTS

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INTEREST OF THE *AMICUS CURIAE*

Askeladden L.L.C. is an education, information and advocacy organization dedicated to improving the understanding, use, reliability and quality of patents pertinent to financial services and other industries. Askeladden seeks to improve the United States patent system by, among other things, submitting *amicus curiae* briefs on important issues of patent law. *E.g.*, *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, No. 14-1513; *Commil USA, LLC v. Cisco Sys., Inc.*, No. 13-896.[1]

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[1] Pursuant to Supreme Court Rule 37.6, Askeladden states that: (i) no counsel for a party authored this brief in whole or in part; and (ii) no person other than the *amicus curiae* or its counsel financially contributed to the preparation of this brief. All parties have consented to the filing of this brief.

regulation that supports a safe, sound and competitive banking system.

Askeladden believes that a strong patent system is vital for continued economic growth and innovation, and that the health of that system depends on retaining traditional checks on patent abuse, including the traditional defense of laches. Eliminating or restricting the laches defense to allow patent owners to assert and maintain infringement claims after long periods of delay would invite abuse and threaten investments made in good faith by financial institutions. Financial services companies face unfair and unreasonable economic prejudice when patent owners bring claims alleging that an important system, method or piece of software that the company has used and on which it has relied for many years infringes a patent. Because such claims may expose companies to substantial liability, they exert pressure on defendants to settle even weak patent claims. As frequent targets of abusive patent claims, financial services institutions have a strong interest in preserving the traditional laches defense.

SUMMARY OF ARGUMENT

For more than a century, courts have recognized that laches is a defense in patent litigation, and they have applied laches to bar belated claims seeking damages for infringement. This unbroken history reflects the importance of laches in the context of patent disputes, in which the potential for prejudice from delay is particularly great. The Federal Circuit's decision below to reaffirm its precedent recognizing a laches defense to damage claims under the Patent Act is correct and should be affirmed.

A contrary interpretation of the Patent Act would not only uproot long-settled law, but would encourage abusive patent practices and stifle investment and technological development. When patent rights are not asserted within a reasonable amount of time, companies invest in methods and technologies based on the good-faith belief that their use does not infringe a valid patent. "[O]nce a large investment has been made in using [a] patented technology, it will often become uneconomical to switch to [another] technology." Mark A. Lemley & Kimberly A. Moore, *Ending Abuse of Patent Continuations*, 84 B.U. L. Rev. 63, 79 n.62 (2004) ("Lemley & Moore, *Ending Abuse*"). Allowing a patent owner to "intentionally lie silently in wait" while technologies and business practices become locked-in and "damages escalate," *A.C. Aukerman Co. v. R.L. Chaides Construction Co.*, 960 F.2d 1020, 1028-33 (Fed. Cir. 1992) (en banc), would unfairly subject defendants to disproportionate liability and create overwhelming pressure to settle even dubious patent infringement allegations.

This outcome would exacerbate one of the most persistent problems in our patent system: abusive patent practices by entities that acquire and use patents not to practice the claimed invention, but rather "primarily [to] obtai[n] licensing fees'" by blanketing companies with notice letters asserting infringement claims and demanding a settlement. *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923, 1937 (2016) (Breyer J., concurring) (quoting *eBay*

Inc. v. MercExchange, L.L.C., 547 U.S. 388, 396 (2006) (Kennedy, J., concurring)). For those entities delay is often good strategy because it increases their settlement leverage—an incentive that is currently reined-in only by the risk that unreasonable delay will result in a successful laches defense.

The problem of strategic delay and abusive infringement claims is particularly acute in industries like financial services, where the stakes are high because of the volume and value of the business that is transacted. These features of the industry have attracted numerous infringement actions targeting established and highly valuable business practices through the assertion of vague business and other method claims of doubtful validity included in patents that issued many years earlier. Removing laches as a check on those actions would only encourage abusive patent litigation and penalize good-faith investment.

Nothing in this Court's recent decision in *Petrella v. Metro-Goldwyn-Mayer, Inc.*, 134 S. Ct. 1962 (2014), supports the elimination of a key equitable defense in patent infringement litigation. The Court's holding in *Petrella* turned on the "undisputed" fact that Congress enacted a statute of limitations for damages claims under the Copyright Act. *Id.* at 1968-69. The Patent Act, however, does *not* have a statute of limitations: although section 286 of the Patent Act places a time limit on damages that may be recovered in a successful infringement action, it does not dictate when a suit must be brought or require dismissal of untimely claims. Instead, laches plays that role. The text of section 286, together with the history and structure of the Patent Act, supports this longstanding interpretation.

ARGUMENT

I. Damage Claims For Patent Infringement Are Subject To Laches.

When a plaintiff delays egregiously in bringing an action, but Congress has not expressly adopted a clear and specific time limit for asserting the cause of action, must the courts allow the action to proceed despite the delay? The answer is no, has been no for more than a century and remains no after this Court's decision in *Petrella*. Where there is no statute of limitations, timeliness does not go unregulated; it is litigated case-by-case, through the laches defense.

A. The Patent Act Does Not Include A Statute Of Limitations.

In common legal usage, a statute of limitations is a statute that establishes "a time limit for suing in a civil case, based on the date when the claim accrued." *CTS Corp. v. Waldburger*, 134 S. Ct. 2175, 2182 (2014) (quoting Black's Law Dictionary 1546 (9th ed. 2009)). Consistent with this definition, statutes of limitation generally share two essential characteristics: (1) they provide a time period within which the plaintiff must bring suit, typically measured forward from when the claim accrued, *see Heimeshoff v. Hartford Life & Accident Insurance Co.*, 134 S. Ct. 604, 610 (2013); and (2) they establish that courts will not entertain an action filed after that time has passed, *see Lozano v. Montoya Alvarez*, 134 S. Ct. 1224, 1234 (2014).

The provision at issue in *Petrella*, for example, had both characteristics. Section 507 of the Copyright Act, titled "Limitations on actions," provides that "[n]o civil action shall be maintained" under the Copyright Act "unless it is commenced within three years after the claim accrued." 17 U.S.C. § 507(b); *see also Petrella*, 134 S. Ct. at 1967, 1978 (explaining that section 507(b) is a "time-to-sue prescription," and indicating that it was "undisputed" that the provision "bars relief of any kind for conduct occurring prior to the three-year limitations period"). A copyright claim that is untimely under section 507 therefore must be dismissed.

By contrast, section 286 of the Patent Act has neither characteristic. First, it does not establish a time period in which a plaintiff must bring an action once the claim accrues; instead, the provision "begins with the date of suit and counts backward" to limit total damages, *Aukerman*, 960 F.2d at 1034. See 35 U.S.C. § 286 ("[N]o 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."). Second, the statute "does not say that 'no suit shall be maintained,'" and thus does not "create a bar under § 286 to the bringing of a suit for infringement or maintaining the suit." *Standard Oil Co. v. Nippon Shokubai Kagaku Kogyo Co.*, 754 F.2d 345, 347-48 (Fed Cir. 1985); *accord* AIPLA Br. 10 (conceding that section 286 "is not a full statute of limitations" for this reason). As a result of these features, section 286 does not bar a suit brought more than six years after an act of infringement—nor does it guarantee that an action brought within that six-year period will be timely. The provision's "only effect" is to limit the scope of recovery "[a]ssuming" that there is a finding of liability and "assum[ing]" that there is "no other impediment to recovery or maintenance of the suit." *Standard Oil*, 754 F.2d at 348.

The Federal Circuit recognized in the decision below that section 286 merely places a limit on recoverable damages, but nonetheless suggested that the distinction between such a damages limitation and a true statute of limitations is "irrelevant" under *Petrella*. Pet. App. 17a. That is not correct. The distinction between section 286 and a true statute of limitations, like that in section 507 of the Copyright Act, is significant. When "Congress explicitly puts a limit upon the time for enforcing a right which it created, there is an end of the matter." *Holmberg v. Armbrecht*, 327 U.S. 392, 395 (1946) (quoted in *Petrella*, 134 S. Ct. at 1973). If Congress, on the other hand, has not clearly spoken on the question when a plaintiff must bring suit to preserve its rights, then laches will fill the gap, "serv[ing] as a guide when no statute of limitations control[s] the claim." *Petrella*, 134 S. Ct. at 1974, 1975; *see also id.* at 1974 n.15 (distinguishing trademark claims from copyright claims because the Lanham Act "contains no statute of limitations"). Section 286 is not a statute of limitations—there is thus no reason for courts to presume that Congress intended the provision not only to limit damages liability to damages that accrue six years before the filing of the infringement action, but also to provide plaintiffs with a *guarantee* of six years of damages regardless of the extent or reasonableness of their delay or the magnitude of the prejudice suffered by the defendants as a consequence of that delay.

B. The History Of The Patent Act Confirms That Laches Is A Defense To A Claim For Damages And That Section 286 Is Not A Statute Of Limitations.

The history of the Patent Act confirms what the language of section 286 makes plain: section 286 is not a statute of limitations; laches therefore is the only law that governs whether an infringement claim is timely. The patent statute contained an actual statute of limitations for a brief time from 1870-1874, when the statute prescribed that "all actions shall be brought during the term for which the letters-patent shall be granted or extended, or within six years after the expiration thereof." Act of July 8, 1870, ch. 230, § 55, 16 Stat. 198, 206. Outside of that short window, the timeliness of patent infringement claims has been governed by laches. That approach is unsurprising given the historic dominance of equity in the enforcement of patent rights in the period leading up to the enactment of the 1952 Patent Act. *See* First Quality Br. pp. 2-5, 17-21.

The application of laches to patent claims dates back to the nineteenth century, *see, e.g. Lane & Bodley Co. v. Locke*, 150 U.S. 193 (1893), and it has been consistently recognized by courts from that time forward. When Congress enacted the Patent Act in 1952 to codify the patent laws in their modern form, *see* Act of July 19, 1952, ch. 950, 66 Stat. 792, the regional circuits uniformly applied laches to claims of patent infringement, *see* Pet. App. 29a-30a, even though the patent laws have, since 1897, included materially indistinguishable variations of section 286's limit on recoverable damages.

Notably, many of the decisions in this long line of cases expressly recognized that laches is a defense in infringement actions for *damages*.[2] Courts reasoned that it was unfair in a suit for damages to allow "the patent owner to sleep on his rights and lead an infringer to make large investments in the belief that he is not infringing or that the patent rights are not to be pressed." *Potash Co. of Am. v. Int'l Minerals & Chem. Corp.*, 213 F.2d 153, 156, 160 (10th Cir. 1954) (holding that the delay in the case made it "inequitable to allow plaintiff to recover damages for past infringement of its patents"); *see also Brennan Hawley Prods. Co.*, 182 F.2d 945 947, 948 (7th Cir. 1950) (laches barred patent owner's "action to recover" for infringement, where the defendant "expended large sums of money in the extension of its manufacturing facilities" as a result of the plaintiff's delay); *Banker v. Ford Motor Co.*, 69 F.2d 665, 666 (3d Cir. 1934) (squarely rejecting the

[2] *See, e.g., Brennan v. Hawley Prods. Co.*, 182 F.2d 945, 947-48 (7th Cir. 1950); *Montgomery Ward & Co. v. Clair*, 123 F.2d 878, 883 (8th Cir. 1941); *Universal Coin Lock Co. v. Am. Sanitary Lock Co.*, 104 F.2d 781, 782 (7th Cir. 1939); *Banker v. Ford Motor Co.*, 69 F.2d 665, 665-66 (3d Cir. 1934); *Ford v. Huff*, 296 F. 652, 658 (5th Cir. 1924).

argument that laches did not apply to claims for damages). SCA Hygiene and its amici try to explain away this large and consistent body of precedent, but the Federal Circuit correctly recognized that the pre-1952 case law "strongly support[ed] the availability of laches to bar legal relief."[3]

There is no reason to believe that Congress intended to disturb this clear judicial consensus when it enacted the Patent Act and simply carried forward the six-year damages provision that now appears in section 286. Congress is presumed to be "aware of" the existing legal context "when it passes legislation," *Miles v. Apex Marine Corp.*, 498 U.S. 19, 32 (1990), and the 1952 Patent Act reflected particularly keen attention to existing interpretations of patent law, as this Court has repeatedly made clear, *see, e.g.*, *Halo Elecs.*, 136 S. Ct. at 1930; *Microsoft Corp. v. i4i Ltd. Partnership*, 131 S. Ct. 2238, 2246 (2011).

In fact, a commentary on the 1952 Patent Act by one of its drafters explains that Congress intended *to retain* the defenses of laches, specifically by 35 U.S.C. § 282. *See* P.J. Federico, Commentary on the

[3] Petitioner SCA Hygiene has suggested (at 44) that *Middleton v. Wiley*, 195 F.2d 844 (8th Cir. 1952), is a counterexample. *See also* Law Professors Br. 14-15. The Federal Circuit, however, correctly rejected that argument. *See* Pet. App. 32a n.9. The court in *Middleton* concluded only that there was "no basis *in this case* for applying the doctrine of laches," and indicated that "*mere delay* in seeking redress" did not justify refusing damages. 195 F.2d at 847 (emphasis added). The court did not suggest that laches was unavailable as a defense even if the defendant establishes prejudice as a result of the delay.

New Patent Law, 35 U.S.C.A. 1 (West 1954), *reprinted in* 75 J. Pat. & Trademark Off. Soc'y 161, 215 (1993) ("Federico"); *see also* Pet. App. 21a (collecting decisions in which this Court has cited Federico as a relevant authority on how to interpret the Patent Act). Congress accomplished this by setting forth patent defenses in "general terms"[4]—section 282(b) broadly recognizes the defenses of "[n]oninfringement, absence of liability for infringement or unenforceability." 35 U.S.C. 282(b). Among other things, this language—with its general reference to a defense based on the "unenforceability" of patent claims—was intended to incorporate traditional "equitable defenses such as laches, estoppel and unclean hands." Federico at 215. Given this backdrop, it is reasonable to presume that Congress intended to preserve the pre-1952 Act rule that recognized laches as a defense to patent infringement, including in actions for damages. *Cf. i4i Ltd. P'ship*, 131 S. Ct. at 2246 (concluding that the 1952 Act incorporated settled pre-1952 law on the standard for proving patent invalidity); *Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17, 25-28 (1997) (holding that decisions recognizing the doctrine of equivalents survived in the 1952 Patent Act).

[4] *See* S. Rep. No. 82-1979, at 9 (1952); H.R. Rep. No. 82-1923, at 29 (1952).

C. The Structure Of The Patent Act Confirms The Limited Role Played By Section 286.

The limited role played by section 286 is further supported by the structure of the Patent Act. Properly understood, sections 282(b) and 286 work together to provide courts with flexibility to determine when the patent owner's damages action should be barred due to unfair delay, while providing the defendant with clear assurance that its liability will never extend back more than six years before the suit was filed.

The Act sets forth general defenses to infringement (section 282(b)), which are followed by provisions describing the relief available for successful infringement claims (sections 283, 284 and 285), and then additional sections limiting the scope of that relief based on case-specific circumstances. The latter category includes section 286 (which places a time limit on recoverable damages) and section 287 (which limits damages, and other remedies, according to whether the patent owner provided appropriate notice of its claims).

The subsequent remedial provisions come into play only if the patent is not rendered invalid, unenforceable or not infringed on the basis of a section 282(b) defense. In a case in which there has been significant delay that was prejudicial, a defendant may assert that the patent is unenforceable under section 282(b) on the ground of laches. If the action survives because the accused infringer fails to prove its laches defense (*e.g.*, because the defendant fails to establish prejudice), the patent owner is eligible to receive damages under section 284, but section 286 still places a time limit on the damages that the plaintiff may recover. This statutory structure balances the competing interests of patent owners and the public by preventing damages from accumulating beyond six years in every case while relying on laches to deal with more extreme cases where delay has prejudiced a defendant who, for example, has built an entire business around a product or method that the patent owner belatedly claims infringes its patent.

In contrast, SCA's proposed interpretation, which would substantially restrict the traditional scope of section 282(b) by eliminating a laches defense, would leave good-faith business investments exposed to a patent owner's dilatory tactics. That is because, outside of section 282(b), other provisions of the Patent Act do not provide adequate protection against the economic prejudice that may result from delay. In this regard, the Patent Act is materially different from the Copyright Act.

For example, the Copyright Act entitles defendants to offset damages by demonstrating their "deductible expenses and the elements of profit attributable to factors other than the copyrighted work." 17 U.S.C. § 504(b). Thus, even though there is no laches defense to damages under the Copyright Act, that statutory provision enables copyright defendants to "retain the return on investment shown to be attributable to its own enterprise, as distinct from the value created by the infringed work"—a fact that this Court highlighted in *Petrella* to support its interpretation of section 507(b). 134 S. Ct. at 1973. By contrast, the Patent Act does not have a comparable offset provision, and the damages assessed for patent infringement sometimes fail to account for "the value added by the manufacturer in putting everything together and marketing the product," or the value of other technologies not covered by the patent. Robin Feldman, *Intellectual Property Wrongs*, 18 Stan. J.L. Bus. & Fin. 250, 261 (2013). As a result, defendants could see their damages escalate based on the value created by their own investments during the period that the patent owner delayed filing suit.

There are other significant differences between patent law and copyright law that explain why Congress provided for a laches defense in the former context. As the Federal Circuit recognized below (Pet. App. 37a-38a), copyright infringement liability exists only for deliberate copying, meaning that an award of damages even several years after an initial act of infringement does not punish good-faith, independent business investment. That is not the case under patent law, because independent invention is not a defense, *see Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 490 (1974), and direct infringement is a strict-liability offense, *see Commil USA, LLC v. Cisco Systems, Inc.*, 135 S. Ct. 1920, 1926 (2015).

It would be anomalous to suppose that Congress intended to leave parties accused of patent infringement with *none* of the protections for their investments that copyright law affords, particularly in light of the potential for substantial economic prejudice from delay in the patent-law context. *See infra* Part II. That, however, would be the effect of reading a laches defense out of the statute.

D. Petitioner's Approach Could Call Other Established Equity-Based Defenses To Patent Infringement Into Question

SCA Hygiene's effort to limit section 282(b) could also unsettle established precedent far beyond the context of laches. Because "[m]uch of the overall body of patent jurisprudence was developed within the equity framework[,] . . . patent law is riddled with equitable approaches." Christopher Beauchamp, *The First Patent Litigation Explosion*, 125 Yale L.J. 848, 913 (2016). These equitable doctrines include several equity-based defenses in infringement actions, including not only "laches," but also "patent misuse, inequitable conduct" and other defenses. *Ibid.*; *see also Aspex Eyewear Inc. v. Clariti Eyewear, Inc.* 605 F.3d 1305, 1310-14 (Fed Cir. 2010) (applying the defense of equitable estoppel); *Symbol Techs., Inc. v. Lemelson Med.*, 277 F.3d 1361, 1363-68 (Fed. Cir. 2002) (applying an equitable defense based on delay in patent prosecution, often referred to as "prosecution laches"); *Intellect Wireless, Inc. v. HTC Corp.*, 732 F.3d 1339, 1341 (Fed. Cir. 2013) (applying an equitable defense based on inequitable conduct in patent prosecution).

SCA Hygiene contends (at 34-36) that laches should not be available as a defense to a claim for infringement damages because it is not specifically enumerated as a defense in section 282(b). It supports this argument by reference (at 23, 36) to 35 U.S.C. § 283, which authorizes courts to grant injunctions "in accordance with the principles of equity." According to SCA Hygiene, the fact that Congress did not expressly provide for a laches defense for damages, or at least endorse the application of general equitable principles, demonstrates that Congress did not intend to recognize any such defense. This argument, however, ignores Congress's intent in passing the 1952 Act to codify preexisting defenses to infringement using "general terms," such as through its reference to a defense of unenforceability. *See* S. Rep. No. 82-1979, at 9 (1952); H.R. Rep. No. 82-1923, at 29 (1952). Moreover, if this argument were accepted here, the Court's reasoning could imperil the many other well-recognized equity-based defenses in damages actions that are not specifically enumerated in section 282(b). *See* p. 15, *supra*. SCA Hygiene has not justified a reading of section 282 that, if taken to its logical conclusion, would eliminate important defenses that have long been available, in claims at law as well as in equity, to protect against abusive behavior on the part of patent owners.

II. Laches Plays A Critical Role In Protecting Legitimate Business Investments And Limiting Abusive Patent Practices.

Reversing the Federal Circuit's decision would have serious negative consequences that would impair business investment and innovation. If there is no check in damages cases on unreasonable litigation delay except for section 286, then patent owners will be free to attack systems, methods and software that have become deeply entrenched over time in the products and services of a company or even an entire industry. Under such a legal regime, even highly questionable patent claims will have the potential to disrupt businesses and allow patent owners to extort settlements from companies seeking to avoid even a slight risk of enormous liability. The experience of companies in the financial services industry demonstrates just how serious a threat that disruption would pose. Such firms have faced a steady stream of dubious infringement suits challenging what have become basic and essential business practices, such as providing mobile banking services to customers through smartphone applications.

As explained above, nothing in the Patent Act or its history suggests that Congress intended this result. Absent a clear directive from Congress,[5] the Court should not take away laches as a tool that the courts can employ to ensure that patent monopolies are used in a way that promotes innovation and investment rather than undermines it.

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[5] Congress is more than capable of providing one. *See, e.g.*, Pub. L. No. 93-531, § 18(b), 88 Stat. 1721 (formerly codified at 25 U.S.C. § 640d-17(b)) (providing that "[n]either laches nor the statute of limitations shall constitute a defense"). But Congress has not done so in any of the numerous revisions to the Patent Act. *See* First Quality Br. 33-36.

A. Economic Prejudice Is Particularly Significant In Patent Cases.

The basic "test of laches is prejudice to the other party." *Gutierrez v. Waterman S.S. Corp.*, 373 U.S. 206, 215 (1963); *see also Galliher v. Cadwell*, 145 U.S. 368, 373 (1892) (holding that laches was properly applied when permitting the claim to be enforced would be inequitable in light of "some change in the condition or relations of the property or the parties"). Prejudice exists where, *inter alia*, "a defendant and possibly others will suffer the loss of monetary investments or incur damages which likely would have been prevented by earlier suit." *Aukerman*, 960 F.2d at 1033. This economic form of prejudice[6] is particularly likely to arise in patent cases, as demonstrated by the many cases over the last several decades in which laches has been applied to protect the interests of defendants that have engaged in significant capital investment to expand their business around a particular method or technology, or devoted significant resources to market and develop that method or technology.[7]

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[6] Prejudice also comes in an evidentiary form, where delay impairs a defendant's ability to defend against infringement allegations. As with economic prejudice, this type of prejudice is acute for defendants in patent litigation because of the burdens that alleged infringers face, particularly if they wish to challenge the patent's validity. *See* First Quality Br. 48; IPO Br. 18-19; *see generally* Electronic Frontier Foundation & Public Knowledge Br.

[7] *See, e.g.*, *Lismont v. Alexander Binzel Corp.*, No. 2:12-cv-592, 2014 WL 4181586, at *10-12 (E.D. Va. Aug. 20, 2014), *aff'd*, 813 F.3d 998 (Fed. Cir. 2016); *LendingTree, LLC v. Zillow, Inc.*, No.

Technologies and business methods typically are not practiced in isolation, and as a result cannot easily be unwound after a significant amount of time without substantial disruption to an accused infringer's business and the loss of sunk-cost investments. *See* William F. Lee & A. Douglas Melamed, *Breaking the Vicious Cycle of Patent Damages*, 101 Cornell L. Rev. 385, 409-11 (2016) (discussing the problem of "lock-in costs"). When a patent owner delays suing for patent infringement, other companies (and even entire industries) may—after engaging in due diligence, including undertaking appropriate patent searches—build up their businesses around particular systems, methods, or designs on the assumption that they are not infringing a valid patent and will not be subject to suit. *See* Lemley & Moore, *Ending Abuse*, 84 B.U. L. Rev. at 79 & n.62. Because independent invention is not a defense to a patent infringement claim, *see*, p. 14, *supra*, delay may turn what could have been a small suit with manageable damages into a bet-the-company litigation, providing the patent owner with "substantial bargaining power." Lemley & Moore, *Ending Abuse*, 84 B.U. L. Rev. at 79 & n.62; *accord* IPO Br. 19-20; IPLA of Chicago Br. 9-10. Companies

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3:10-cv-00439-FDW-DCK, 2014 WL 1309305, at *9 (W.D.N.C. Mar. 31, 2014); *Medinol Ltd. v. Cordis Corp.*, 15 F. Supp. 3d 389, 408-09 (S.D.N.Y. 2014); *Enel Co. v. Schaefer*, No. 12-cv-1369-IEG (WMC), 2013 WL 5727421, at *10 (S.D. Cal. Oct. 22, 2013); *Lautzenhiser Techs., LLC v. Sunrise Med. HHG, Inc.*, 752 F. Supp. 2d 988, 1004 (S.D. Ind. 2010); *Crown Packaging Tech., Inc. v. Rexam Beverage Can Co.*, 679 F. Supp. 2d 512, 526-27 (D. Del. 2010); *Manus v. Playworld Sys., Inc.*, 893 F. Supp. 8, 10 (E.D. Pa. 1995), *aff'd*, 86 F.3d 1177 (Fed. Cir. 1996).

wary of exposing themselves to such liability might simply decline to invest, to the detriment of consumers and the overall economy. *Cf. Halo Elecs.,* 136 S. Ct. at 1937 (Breyer, J., concurring) (noting, in the context of enhanced damages under 35 U.S.C. § 284, that exposure to heightened damages for alleged patent infringement "can encourage the company to settle, or even abandon any challenged activity").

The experience of the financial services industry illustrates how time and investment can magnify a defendant's exposure for alleged patent infringement. Electronic check image processing, for example, has become "standard practice in the banking industry," S. Rep. No. 110-259, at 34 (2008), and it has even been promoted by Congress: in 2003, Congress enacted the Check Clearing for the 21st Century Act, Pub. L. No. 108-100, 117 Stat. 1177, which was intended to allow banks to handle more checks electronically in order "[t]o improve the overall efficiency of the Nation's payments system," 12 U.S.C. § 5001(b)(3). Numerous financial services institutions have nevertheless been sued for infringement based on their use of this now-bedrock technology by a company that obtained business method patents in 1999 and 2000—well after the technology had been developed. Precisely because check imaging is now so ubiquitous, the potential liability associated with those actions is enormous. *See* Megan M. La Belle & Heidi Mandanis Schooner, *Big Banks and Business Method Patents*, 16 U. Pa. J. Bus. L. 431, 455 (2014) (describing suits by the patent owner DataTreasury and indicating that the company collected "an estimated $400 million in settlement/licensing fees" from financial institutions over the course of a decade of litigation and threatened litigation). The liability continues to swell over time.

Petitioner SCA Hygiene contends (at 20, 49-50) that the statutory notice requirement for patented articles, *see* 35 U.S.C. § 287, avoids the risk of unfair surprise and resulting prejudice. Section 287 is no substitute for laches in curtailing abusive patent practices, however, and it was not intended to be. First, as SCA Hygiene admits (at 50 n.3), section 287 does "not apply where the patent is directed to a process or method." *ActiveVideo Networks, Inc. v. Verizon Commc'ns, Inc.*, 694 F.3d 1312, 1334 (Fed. Cir. 2012). Section 287 thus does not provide any protection against strategic delay in the assertion of method patent claims after business practices have become entrenched, as in the check-imaging example. Second, even when section 287's marking requirement does apply, patent owners typically discharge it merely by providing notice of potential infringement allegations prior to suit. *See* 35 U.S.C. § 287(a); SCA Hygiene Br. 49-50. That minimal obligation often has little practical value in an economy where some firms make money by sending boilerplate, conclusory "letters to 'tens of thousands of people asking for a license or a settlement' on a patent." *Halo Elecs.*, 136 S. Ct. at 1937 (Breyer, J., concurring) (citation omitted); *accord* IPLA of Chicago Br. 17, 19 (noting the prevalence of such demand letters). Innovation will be stifled if companies are forced to curtail product and business development (or attempt to file an action for declaratory relief) every time they receive a cursory demand letter—even though the putative patent owner did not follow-up on its letter by pursuing litigation within a reasonable amount of time.

B. Eliminating Laches In Damages Cases Would Encourage Abusive Patent Suits.

The consequences of eliminating laches as a defense would be bad enough if its effects were limited to legitimate patent claims. The elimination of the defense of laches, however, would have far reaching and harmful consequences because it would increase the incentives for abusive patent owners to assert weak or frivolous patent claims against well-established and highly valuable products and services. *See, e.g.*, *High Point Sarl v. Sprint Nextel Corp.*, 67 F. Supp. 3d 1294, 1316-18 (D. Kan. 2014) (applying laches to bar infringement suit related to infrastructure equipment used by a telecommunications provider for more than a decade to build its wireless network), *aff'd in part*, 817 F.3d 1325 (Fed. Cir. 2016); *St. Clair Intellectual Prop. Consultants, Inc. v. Acer, Inc.*, 961 F. Supp. 2d 610, 617 (D. Del. 2013) (granting summary judgment on the basis of laches in a blanket suit against numerous technology companies); *I/P Engine, Inc. v. AOL Inc.*, 915 F. Supp. 2d 736, 741 (E.D. Va. 2012) (applying laches to bar suit against an internet-service provider and its customers).

Indeed, a common and "especially damaging" strategy used by some patent owners is to "wait[] after a patent has been issued while an industry advances using the covered technology and then su[e] widely for infringement only after the industry has become locked into the technology through independent innovation and development." Ronald J. Mann, *Do Patents Facilitate Financing in the Software Industry?*, 83 Tex. L. Rev. 961, 1027 (2005) ("Mann, *Financing*"); *see also* Robert P. Merges, *The Trouble with Trolls: Innovation, Rent-Seeking, and Patent Law Reform*, 24 Berkeley Tech. L.J. 1583, 1590-91 (2009) ("The patent troll strategy is to take advantage of 'lock-in' that occurs as a result of [sunk cost] investments."). By adopting this approach, abusive patent owners maximize their leverage to induce settlement, because once "the product has become locked in and profitable" the damages are greater and "the product or component of a system" is "more expensive [for the defendant] to replace." Mark Rawls, Note, *Fixing Notice Failure: How to Tame the Trolls and Restore Balance to the Patent System*, 5 Wm. & Mary Bus. L. Rev. 561, 581 (2014).

Abusive patent claims targeting the financial services industry illustrate the seriousness of this risk. Financial services institutions are especially attractive targets for vague infringement allegations by owners of weak patents because they provide products and services to millions of customers who in turn enter into many millions of transactions. One study found that patents directed to financial services are *27-39 times* more likely to be asserted in litigation than patents generally. Josh Lerner, *The Litigation of Financial Innovations*, 53 J.L. & Econ. 807, 808 (2010). Moreover, third-party patent owners (*i.e.*, parties other than the inventor or original assignee), brought an unusually high number of these suits, *id.* at 815-16, which suggests that much of infringement litigation is driven by patent owners opportunistically seeking out lawsuits. Consistent with the incentives for delay discussed above, abusive companies have adopted the strategy of acquiring old patents to challenge methods and technologies used by a wide variety of financial services companies after those methods and practices have become entrenched throughout the industry. *See* Brian J. Love, *An Empirical Study of Patent Litigation Timing: Could a Patent Term Reduction Decimate Trolls Without Harming Innovators?*, 161 U. Pa. L. Rev. 1309, 1345 (2013) ("Love, *Patent Litigation Timing*") (finding that for more than 80% of adjudicated patents in the author's sample that were litigated in the last three years of the patent term, non-practicing entities failed to establish that the patent claims were valid and had been infringed).[8]

Maxim Integrated Products, Inc., for example, has made a business out of suing financial services companies (among others) for offering mobile-banking applications on smartphones. Maxim acquired patents that were originally issued in

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[8] Professor Love's study pool consisted of all patents that issued between May 11, 1993 and May 10, 1994 that were litigated by the time of his study in March 2013. Love, *Patent Litigation Timing*, 161 U. Pa. L. Rev. at 1317-18. Of the 1180 total patents in this study pool, Love randomly selected 472 (two-fifths), and after excluding 51 that were never actually asserted against an alleged infringer, conducted his analysis on the remaining 421. *Id.* at 1320-21.

connection with the development of a product called the "iButton"—a small steel fob containing basic internal circuitry designed to store and transfer data, such as digital money for a bus or subway fare. In 2012, ten years after these patents issued, Maxim began to assert those patents against companies in the financial services industry, sending generic notice letters to numerous financial services institutions and subsequently filing suit against many of the companies for alleged patent infringement. *See, e.g.*, Compl. ¶¶ 23-24, *Maxim Integrated Prods., Inc. v. Bank of America Corp.*, No. 12-cv-617-RAS, D.I. 1 (E.D. Tex. filed Oct. 1, 2012). Notwithstanding the weaknesses of Maxim's patent claims, accused financial services institutions have repeatedly settled, rather than face the enormous risk of incurring damages based on the millions of financial transactions now effected with mobile banking applications. *See In re Maxim Integrated Prods., Inc.*, MDL No. 2354, 2015 WL 867651, at *1 & n.1 (W.D. Pa. Feb. 27, 2015) (noting that all but one defendant in the multi-district litigation had settled with Maxim); *id.* D.I. 1072 (Dec. 2, 2015) (reporting a settlement by the lone holdout).

No doubt encouraged by its success leveraging settlements from its dubious patent claims, Maxim filed a new round of suits in 2015 against additional financial services companies based on the same general theory. *See Maxim Integrated Prods., Inc. v M&T Bank Corp.*, No. 15-cv-02167-DLC, D.I. 1 (S.D.N.Y. filed Mar. 23, 2015); *Maxim Integrated Prods., Inc. v. HSBC Bank USA, N.A.*, No. 15-cv-02168-DLC, D.I. 1 (S.D.N.Y. filed Mar. 23, 2015);

Maxim Integrated Prods., Inc. v. Santander Bank, N.A., No. 15-cv-02169-DLC, D.I. 1 (S.D.N.Y. filed Mar. 23, 2015). Once again, the actions ended in quick settlements. *See Maxim Integrated Prods., Inc. v M&T Bank Corp.*, No. 15-cv-02167-DLC, D.I. 57 (S.D.N.Y. Oct. 30, 2015) (reporting settlements in all three actions). Absent a potential laches defense, nothing would stop Maxim from filing the same suit every few years going forward against additional financial services companies as more and more customers conduct their banking on mobile devices.

Laches provides accused infringers with one important way to fight back against opportunistic and abusive suits. *See* Mann, *Financing*, 83 Tex. L. Rev. at 1027-28 (arguing that rigorous application of the laches doctrine could mitigate the problem of opportunistically timed patent suits). Of course, even with a laches defense, many companies will settle these suits rather than incur the substantial costs of patent litigation. *See* Megan M. La Belle, *Against Settlement of (Some) Patent Cases*, 67 Vand. L. Rev. 375, 404 (2014). Without laches as a defense to protect against economic prejudice caused by delay, however, companies would have to gamble that a court will agree on the merits that patent claims were either invalid or not infringed. When the suit comes with risks of enormous liability and could imperil the company's entire way of doing business, most companies will decline to place the bet.

CONCLUSION

The Court should hold that laches is available as a defense to claims for damages in patent infringement actions and should further hold that the defense may bar entire suits for damages, injunctive relief, or both.

Respectfully submitted.

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