

Inviting the Return of the Submarine Patent

By Doug Miro and Larry Rosenthal

Introduction

Earlier this year, on March 21, the Supreme Court in *SCA Hygiene Prods. Aktiebolag v. First Quality Baby Prods., LLC*¹ reversed the Federal Circuit and eliminated laches as a defense to damages claims in patent cases. Seven of the eight members of the Court who participated in the case agreed that laches is incompatible with the six-year limitation on damages claims set forth in 35 U.S.C. § 286. The basis of the holding is that laches is “a gap-filling doctrine,” and where there is a statute of limitations, “there is no gap to fill.”²

With its ruling in *SCA Hygiene* the Supreme Court aligned patent law with copyright law with respect to the viability of a laches defense. Three years ago, the Court held in *Petrella v. Metro-Goldwyn-Mayer, Inc.*³ that the Copyright Act’s three-year statute of limitations precludes a laches defense in copyright cases. The Supreme Court used the same logic to arrive at its parallel conclusion in *SCA Hygiene* despite the arguments raised by amici as to the many differences between these two types of intellectual property.⁴

Justice Breyer (who also dissented in *Petrella*) was the lone dissenter, arguing that removing laches—and allowing a patent holder to sue at any time after infringement—creates a gap that puts an alleged infringer at a big disadvantage:

Because a patentee might wait for a decade or more while the infringer (who perhaps does not know or believe he is an infringer) invests heavily in the development of the infringing product (of which the patentee’s invention could be only a small component), while evidence that the infringer might use to, say, show the patent is invalid disappears with time. Then, if the product is a success, the patentee can bring his lawsuit, hoping to collect a significant recovery.⁵

Justice Breyer here foretells the return of the Submarine Patent.

History of the Submarine Patent

A. Former Patent Framework

Before the United States adopted the trade agreements included in the Uruguay Round Agreements Act in 1994, the term of a U.S. patent expired 17 years from the date the patent issued. This allowed a patentee to game the system and keep a patent family pending theoretically indefinitely because a new application in a patent family could claim priority back to the filing of the first application in the family so long as the new application

was filed before prosecution in all of the pending applications in the family ended (issued or were abandoned). As a result of this framework, an applicant could continue to file new patent applications years after the initial date of priority while still claiming this early priority date.

For example, if an applicant filed a patent application on January 1, 1950, and it issued on January 1, 1953, the applicant could file a continuation application on December 31, 1952 and claim priority to January 1, 1950. Before that second application issued, the applicant could file another continuation application, also with a claim of priority back to January 1, 1950. Look forward thirty years, and that patent family could still be alive, with new claims being drafted as technology continued to advance. An application that issued 30 years after the January 1, 1950 priority date would not have expired until 1997.

B. Lemelson

A legendary example of this practice involved the inventor Jerome Lemelson, who hamstrung companies in the machine vision technology (e.g., bar codes) field for years by tailoring claims to new technologies that were not even contemplated when his first application was filed in 1954. By taking advantage of the seventeen-year-from-issuance rule, Lemelson was able to keep his patent family open for about forty years.⁶ His game plan was to amend his continuing applications based on technology developed by other inventors over time, so that when these other inventors commercialized their inventions, Lemelson would be in a position to sue them.⁷ Initially, Lemelson sued smaller users of the infringing technology who tended to settle instead of challenging the patents in an expensive lawsuit, but after Lemelson died, the heir to his patents began suing bigger fish. This led to his patents being challenged in court, where they were eventually found invalid and unenforceable due to prosecution laches.⁸ Before this reversal of fortune, the strategy was so successful that the Lemelson patents raised over a billion dollars in licensing fees.⁹

Patents acquired under this scheme became known as “submarine patents” because they lay in wait, hiding until the right time to surface and torpedo unsuspecting companies that had invested time and money in developing their technologies and expanding their businesses without being aware of the lurking danger.

C. Death of the Submarine Patent

One of the provisions in the Uruguay Round Agreements Act of 1994, codified as 35 U.S.C. § 154, provided that the term of a patent would be changed to

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a term beginning on the date on which the patent issues and ending 20 years from the date on which the application for the patent was filed in the United States or, if the application contains a specific reference to an earlier filed application or applications under section 120, 121, 365(c), or 386(c), from the date on which the earliest such application was filed.¹⁰

As a result, under current law, regardless of when a continuation application is filed, it now expires 20 years from the filing date of the first application in the family¹¹ to which it claims priority. In the example above, if the current 20-year term rule were in effect in 1950, any patent in the family that issued, no matter when it issued, would have expired by January 1, 1970 (subject to extensions). Lemelson's patents would not have reached past 1974 (plus an extension of up to five years).

The Submarine Patent was no more.

Laches Defense in the Real World

A. What Laches Protected Against

The laches defense in patent law, rooted in the seminal Federal Circuit case *A.C. Aukerman Co. v. R. L. Chaides Constr. Co.*,¹² protected an accused infringer from a patent holder who delayed suing for so long that the accused infringer was prejudiced.¹³ This prejudice generally came in two forms: evidentiary and economic. Evidentiary prejudice could arise "by reason of a defendant's inability to present a full and fair defense on the merits due to the loss of records, the death of a witness, or the unreliability of memories of long past events, thereby undermining the court's ability to judge the facts."¹⁴ The loss of evidence was not limited to now-hard-to-find prior art and inventor-witness testimony but also could include loss of the accused infringer's own documents. Not being aware of a looming infringement action, a company might not preserve documents necessary to defend itself, including business records and licensing agreements, and key witnesses may be hard to find.

Economic prejudice may arise "where a defendant and possibly others will suffer the loss of monetary investments or incur damages which likely would have been prevented by earlier suit."¹⁵ Companies could lose significant investments in infrastructure, inventory build-up, employee training, establishing supply lines, and goodwill in the accused products. For laches purposes there was no requirement, as with equitable estoppel, that the alleged infringer know about the patent or that it was led to believe it would not be sued.¹⁶

With laches as a permitted defense to patent infringement, a patent holder was required to bring suit within a reasonable amount of time after learning of the infringe-

ment in order to avoid causing such prejudice to the accused infringer. That is, the patent holder could not "intentionally lie silently in wait watching damages escalate, particularly where an infringer, if he had notice, could have switched to a noninfringing product."¹⁷

B. Laches in Practice

The laches defense was relied upon often to avoid injustice, including in the following cases.

1. Universal Remote Control

The authors recently represented the defendant in *Universal Electronics Inc. v. Universal Remote Control*¹⁸ (the "2012 URC Litigation"). Twelve years earlier, in 2000, UEI had sued URC on a few patents, including U.S. Patent 5,414,426 (the "'426 patent"); UEI thus was aware of URC's product lines since at least that time. After URC notified UEI in 2001 that the '426 patent was invalid due to prior art, UEI alleged that a quick fix to an error in the claimed inventorship would give the '426 patent an earlier priority date and that the '426 patent therefore was not invalid over this particular piece of prior art. In 2002, UEI dismissed its claims relating to the '426 patent instead of correcting the inventorship issue. Ten years later, UEI sued URC again on the '426 patent in the 2012 URC Litigation. In the intervening 10 years, URC had "continued to engage in open and notorious competition with UEI and expanded its product line with the allegedly patented feature, while UEI remained silent."¹⁹ In addition to this economic prejudice, URC also suffered evidentiary prejudice because the alleged co-inventor passed away during this waiting period, and UEI could not produce any emails prior to 2006. Moreover, other witnesses "could no longer recall the alleged inventor's role in the original invention twenty years earlier or why UEI waited ten years to correct inventorship."²⁰

As URC explained in its amicus brief to the Supreme Court in *SCA Hygiene*:

Had UEI asserted its claim in a timely manner, URC could have avoided any potential liability by removing the allegedly infringing feature, changing to another design, or seeking to attack the validity of the patent sooner Even if URC were ultimately unsuccessful in those attempts, URC's potential liability would have been significantly less before URC's significant investment in expanding its business.²¹

2. Altech

In *Altech Controls Corp. v. EIL Instruments, Inc.*²² the Federal Circuit upheld a laches defense where the defendant presented evidence of evidentiary prejudice due to a policy of shredding, after five years, relevant documents that it would have needed for its defense. The defendant

“also presented evidence of economic prejudice where it would have handled its significant financial restructuring in a different manner had it been aware of a potential lawsuit by the plaintiff.”²³

3. *Serdarevic*

In *Serdarevic v. Advanced Med. Optics, Inc.*²⁴ the Federal Circuit affirmed a finding of laches where three witnesses with knowledge of the plaintiff’s claim to be an inventor on certain patents “died during the period of her delay” and based on the “cumulative and inherent prejudice from the dimming memories of all participants.”²⁵ The court specifically noted the lower court’s reasoning that “their deaths prevent the defendants from fully investigating [the plaintiff’s] claims.”²⁶

4. *Adelberg Labs*

In *Adelberg Labs, Inc. v. Miles, Inc.*²⁷ the Federal Circuit held that “[m]aking heavy capital investment and increasing production can constitute prejudice.”²⁸ In that case economic prejudice was a basis for laches where the defendant built up its business by the seventh year of plaintiff’s delay and where it had reason to believe the plaintiff would not sue. The Federal Circuit noted that this activity “could have been costly to Cutter if [plaintiff] Adelberg had successfully sued and recovered lost profits or increased damages to compensate for the infringement. Thus, [defendant] Miles has shown adequate prejudice by [plaintiff] Adelberg’s delay in bringing suit.”²⁹

Effects of SCA Killing Laches as a Defense

A. Return of the Submarine Patent

With the Supreme Court’s decision in *SCA Hygiene*, the “submarine patent” appears to have returned to unfairly haunt alleged infringers, albeit in a slightly different form and perhaps for a somewhat shorter period of time. Previously, unissued patents would remain submerged indefinitely until a target was found. Today’s submarine patent takes the form of an issued patent that may be unknown to the industry at large. The Supreme Court has, perhaps unwittingly, unleashed a host of problems for innocent, unsuspecting companies that believe they are not infringing on anyone’s intellectual property. Because a patentee is now effectively able to collect damages for any six-year period prior to the filing of an infringement claim,³⁰ this new version of the submarine patent allows patent holders to lay in wait, even past the term of the patent, until a specific target, or even an entire industry, grows, and to profit from the accused infringers’ investments with little risk to themselves. It also places an unattainable burden on companies to learn about every relevant patent that exists.

1. Patent Holder Can Lay in Wait Until a Specific Target Grows or an Industry Develops

Laches previously prevented the selective targeting described above, but, as noted by Justice Breyer, a patent holder no longer has to bring suit soon after learning

of an alleged infringement of its patent.³¹ Instead, it can take a wait-and-see approach while the alleged infringer expends considerable capital to expand its business, including hiring and training employees, developing sales, establishing supply lines, building inventories, and investing in research and development. This may not be limited to a single company—it could pertain to an entire industry. A patented technology could even be unwittingly incorporated into a common standard and used by all manufacturers that wish to be in compliance for reasons of interoperability.

Not only are these companies putting forth a lot of effort during this waiting period, but the scope of the damages for which they may be liable increases day by day. Delay then becomes a strategic decision for a patent holder to the detriment of those unknowingly using the patented technology.

Although section 286 limits damages to the six years preceding the filing of the lawsuit, the patent owner can now select the six most profitable years to the accused infringers, as it takes time for companies to develop market share and to realize returns on their investments.

2. The Patent Holder Will Profit From Accused Infringers’ Investments at Little Risk

Companies face great risks when they build a business through substantial investment in a technology. By sitting on the sidelines, patent holders do not expose themselves to these risks. Instead, they have the benefit of hindsight and are afforded the convenience of being able to step in at any time once the target companies have succeeded. The more the companies invest in the technology and products (at greater risk), the greater the profits to be claimed by the patent holder.

If a patent holder were to sue an alleged infringer as it was just beginning to invest in a specific technology, the patent holder would not be able to recover much in the way of damages—perhaps only a future royalty. However, facing the prospect of having to share a portion of its profits, a licensee may choose to switch to an alternate technology. Therefore, by lying in wait, the patent holder not only essentially gets a free ride on the shoulders of the accused infringers, it also can obtain greater rewards.

3. An Unattainable Burden Has Been Placed on the Manufacturer

Before *SCA Hygiene*, once a patent holder became aware of a company using its invention, it had the burden to timely enforce its patent rights or have its claims possibly blocked or limited by laches. An alleged infringer’s position improved in a potential patent infringement action with an unreasonable passage of time. Now, since there is no such burden on the patent holder, companies do not have the luxury of “time healing all wounds.” Instead, time can now inflict the wounds.

As a result of *SCA Hygiene*, a much more onerous burden is now placed on companies to monitor patents that may be relevant to the technologies they use. This may not be an easy task. In certain cases, there are many patents that cover minute aspects of the technology. For example, there are tens of thousands of patents covering various aspects of cell phones, including for user interface, battery, antenna, substrate, data encoding/decoding, cell network topology, 4G and LTE standards, and many many more. For a company to go back 25 or more years to uncover any patent that may have a bearing on its technology could be a Sisyphean task depending on the incorporated technologies. Meanwhile, the patent holder, clearly in the better position to identify widespread use of its technology, now has no burden at all.

B. Prejudice to Alleged Infringers

As mentioned above, alleged infringers will face great prejudice if older patents are asserted against them. This is the “gap” that Justice Breyer noted in his prescient dissent.³²

1. Loss of Evidence

It becomes more difficult to defend against patents as time passes. Therefore, the longer a patent holder waits to assert a patent, the more advantage it has in court. As explained above, the memories of witnesses (if still alive) fade over time, and most email systems are designed not to keep old emails past a certain amount of time. Hard copies of documents are also harder to find, as they may be stored away or even discarded. There was clear evidentiary prejudice of this kind to the accused infringers in the *URC*, *Altech*, and *Serdarevic* cases, where documents had been properly destroyed or witnesses had died or had dimmed memories.

2. Economic

Most companies continue to invest over time in development and expansion of technology and of their product lines. Even if the technology has evolved, it may be based on older technology of the patent holder, whose broad claims still may read on the improved technology. Companies that have spent a lot of time and money thus may now find that their investments were not as profitable as predicted because now they owe a portion of revenues to a patent holder. What looked like a good investment with a solid ROI may not look so profitable in hindsight. Had the accused infringer known of the patent and the accusations many years earlier, it may have invested in alternate, more profitable technologies or changed its business model to reflect the extra costs.

3. Lock-In

As a corollary to economic prejudice, once a company has made investments in certain technology, there comes a time when abandoning use of the infringing technology or switching to new, non-infringing technology becomes more difficult or even impossible. As explained above, a company would have hired and trained employees, built

infrastructure and inventory, established supply lines, and developed goodwill with its customers. At this point, the accused infringer is “locked in”³³ to its chosen technology.

C. Trolls

At a time when it seems everyone else is united in an effort to eradicate trolls—the blight of the patent system—this decision empowers them in various ways. Trolls are entities that do not develop any technology of their own but instead use patents solely to extract money from legitimate companies.

1. Find Older Patents

As explained above, the longer the wait to file suit, the more advantages the troll has because of the increased prejudice to the accused infringer. Patent trolls therefore now have incentive to search through and purchase old patents (possibly even if recently expired) to find any that may apply to current products or services. This greatly expands the number of potential patents that could be asserted against companies that are just trying to continue with business as usual.

2. Increased Delay

A company that makes, uses, or sells its patented technology has the incentive to sue quickly to prevent competitors from using the patented technology to eat away at its market share and profits.³⁴ To the contrary, trolls are incentivized to delay bringing suit as they lie in wait, as explained above, since their primary reward is recovering settlement and damages rewards.³⁵ Because contesting patents becomes more expensive and uncertain as the patent ages due to evidentiary prejudice, trolls can also recover higher awards by waiting.³⁶

3. More Likely to Settle

Trolls are also encouraged to bring suit on older patents because the higher cost and uncertainty in defending against these suits plays right into their game plan of extracting a quick settlement instead of going to trial on the merits. Trolls are “disproportionately likely to bring suits on low-quality patents.”³⁷ Not only may the claims themselves be weak and possibly invalid, but an infringement read can afford to be somewhat questionable because the patents will not be held invalid or unenforceable without the accused infringer spending the money to see the litigation through.

4. Accused Infringers Are Left with Equitable Estoppel

With laches no longer being a defense to patent infringement, accused infringers still can rely on equitable estoppel, but this is usually more difficult to establish than laches. Where laches is based on the unreasonable passage of time, to establish equitable estoppel an accused infringer must prove that the patent holder “communicate[d] something in a misleading way, either by words, conduct or silence [; the alleged infringer]

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relie[d] upon that communication [; and the alleged infringer] would be harmed materially if the [patent holder] is later permitted to assert any claim inconsistent with his earlier conduct.”³⁸ Equitable estoppel can, however, entirely bar a patentee’s claim rather than only barring damages incurred prior to suit (as with laches).³⁹

Recommended Actions

Unless Congress steps in to codify laches as a defense to a claim of patent infringement, companies will need to protect themselves from older patents. The best time to do this is before a company invests in its technology. It would be wise for companies to have far more extensive right-to-use (aka freedom-to-operate) searches performed to bring these new submarine patents to the surface early. This type of search examines patents in the same space as the technology in question and can reveal any patent coverage that a company should avoid or try to license. This is not just a search for patents; it usually includes a claim-by-claim analysis of any patents that may be close in subject matter to the technology at issue. If there are any patents of concern, the company then would understand the scope of the claims and how to design around them if necessary and if desired. The bottom line is that the company would be able to make an informed decision as to how to proceed and could take steps to protect itself, including considering a written opinion to safeguard against any future claims of willful infringement.

If a company receives a notice letter from a patentee threatening infringement, the company may want to consider responding not only with arguments of non-infringement, invalidity, or other defenses if available, but also with an affirmative statement bolstering a defense of equitable estoppel. For example, this statement could declare that the company will rely on the patentee’s future silence and failure to reasonably follow up on its allegations to justify the continuation of the accused activities. If a suit is then brought after some unreasonable passage of time, the company can then argue that it has been materially harmed.

Conclusion

With the demise of a laches defense in an action for patent infringement, accused infringers have lost a powerful and relatively easy-to-establish ally that barred patentees from strategically lying in wait for years to gain distinct advantages over accused infringers. Trolls have been emboldened, and patent holders can profit from accused infringers investments with little risk to themselves. Companies now have a formidable burden of being proactive in understanding the relative patent landscape in order to protect themselves and their investments from damaging lawsuits.

In stretching to conform patent law and copyright law, the Supreme Court has unwittingly resurfaced the Submarine Patent.

Endnotes

1. 137 S. Ct. 954 (2017).
2. *Id.* at 961.
3. 134 S. Ct. 1962 (2014).
4. See, e.g., Brief of Dell Inc. et al. as *Amici Curiae* in support of Respondents at 19-26, *SCA Hygiene Prods. Aktiebolag v. First Quality Baby Prods., LLC*, 137 S. Ct. 954 (2017) (No. 15-927).
5. *SCA Hygiene*, 137 S. Ct. at 968.
6. *Breaking the (Bar) Code*, IP LAW & BUSINESS, Mar. 2004, at 3.
7. *Id.*
8. Prosecution laches is not the same as the laches at issue in the *SCA Hygiene* case. Prosecution laches pertains to delay in acquiring the patents, not in any delay in bringing suit on an already issued patent.
9. *Breaking the (Bar) Code*, *supra* note 6, at 2.
10. 35 U.S.C. § 154(a)(2).
11. Subject to extension due to delay in examination by the patent office. 35 U.S.C. § 154(b).
12. *A.C. Aukerman Co. v. R. L. Chaides Constr. Co.*, 960 F.2d 1020 (Fed. Cir. 1992).
13. *Id.* at 1032.
14. *Id.* at 1033.
15. *Id.*
16. *Id.*
17. *Id.*
18. 8:12-cv-00329 AG (JPRx), C.D. Cal.
19. Brief Amicus Curiae of Universal Remote Control in Support of Respondents, *SCA Hygiene Prods. Aktiebolag v. First Quality Baby Prods., LLC*, No. 15-927, at 11.
20. *Id.* at 12.
21. *Id.* at 13.
22. 8 Fed. Appx. 941 (Fed. Cir. 2001).
23. *Id.*
24. 532 F.3d 1352 (Fed. Cir. 2008).
25. *Id.*
26. *Id.* at 1361.
27. 921 F.2d 1267 (Fed. Cir. 1990).
28. *Id.* at 1272.
29. *Id.*
30. 35 U.S.C. § 286.
31. *SCA Hygiene*, 137 S. Ct. at 967-68.
32. *Id.* at 968.
33. *Id.* at 972.
34. Brief of Dell Inc. at 27.
35. *Id.* at 28.
36. *Id.* at 31.
37. *Id.* at 29.
38. *Aukerman*, 960 F.2d at 1041.
39. *Id.*