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Expert Analysis

Will SCOTUS Copyright Precedent Influence Upcoming Patent Decisions?

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In a pair of recent Copyright Act cases, the Supreme Court clarified the doctrines of laches and exhaustion. The court now is now set to decide whether and how those same doctrines apply under the Patent Act. *SCA Hygiene Prods. Aktiebolag SCA v. First Quality Baby Prods.*, 807 F.3d 1311 (Fed. Cir. 2015) (laches); *Lexmark Int'l v. Impression Prods.*, 816 F.3d 721 (Fed. Cir. 2016) (exhaustion). We report here on these Federal Circuit decisions and pending appeals, and discuss the differing statutory framework and policy concerns of patent and copyright law. Although we reported on the Federal Circuit's *Lexmark* decision in March 2016, we include it here in light of the Supreme Court's grant of certiorari.

Cases and Statutes

Laches. Laches is an equitable defense that can bar legal remedies where the plaintiff unreasonably and inexcusably delays bringing suit, and the defendant suffers material prejudice attributable from the delay. *SCA Hygiene*, 807 F.3d at 1317.

'Lexmark' did not alter the availability of the express- or implied-license defense to a claim of patent infringement.

In *Petrella v. Metro-Goldwyn-Mayer*, the court held that laches could not be invoked to preclude a claim for damages that is brought within the three-year limitations period of the Copyright Act. See 134 S. Ct. 1962 (2014); 17 U.S.C. §507(b). Importantly, the court also held that laches is still available as an equitable defense "in extraordinary circumstances," and that "a plaintiff's delay can always be brought to bear at the remedial stage, in determining appropriate injunctive relief, and in assessing the" infringer's profits. Id. at 1967.

In contrast, in *SCA Hygiene* the Federal Circuit held that even though patent-infringement actions have a six-year damages-recovery period, laches may nevertheless bar a claim for legal relief even where brought within that period, finding that Congress had codified the laches defense in the Patent Act. See 807 F.3d at 1328. The Federal Circuit reached this conclusion by examining the interaction between two Patent Act provisions, 35 U.S.C. §§282 and 286.

Section 282 codifies the defenses available against a claim of patent infringement, and states, "(b) Defenses.—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."

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§286, in turn, provides for a six-year damages recovery period. 35 U.S.C. §286 ("no recovery shall be had for any infringement committed more than six years prior to the filing of the complaint"). The Federal Circuit concluded that at the time of §282's codification, laches was available to bar a claim for legal relief for patent infringement. *SCA Hygiene*, 807 F.3d at 1328. It thus found that laches is included within §282(b), even though it is not explicitly mentioned therein, and that laches may therefore prevent recovery of prior damages, even if a claim is brought within §286's six-year period. Id.

The Federal Circuit highlighted that while the Copyright Act allows a defense of independent creation, there is no parallel for patent claims and thus there is a reason to permit a laches defense: "Independent invention is no defense in patent law, so without laches, innovators have no safeguard against tardy claims demanding a portion of their commercial success." Id. at 1330.

Exhaustion. In *Kirtsaeng v. John Wiley & Sons*, the Supreme Court held that the first-sale doctrine of §109(a) of the Copyright Act applies to authorized foreign sales of copyrighted works that were manufactured outside the United States. 133 S. Ct. 1351 (2013). Upon an authorized foreign sale of a copyrighted work, the copyright holder's rights in the copy of the work are exhausted, and the owner of that particular copy may import that copy into, and sell that copy within, the United States without further authorization. Id. at 1355-56.

In *Lexmark*, the Federal Circuit declined to extend *Kirtsaeng* to the patent context, and held—based on its assessment of the text and history of the Patent Act—that an authorized foreign sale of a patented article does not exhaust the patent holder's U.S. rights. See 816 F.3d at 727. The Federal Circuit observed that in *Lexmark*, the Supreme Court did not refer "to patent law, even at a general level," which, the court found, "reinforces the need for a distinct patent-law analysis." Id. at 756.

Importantly, *Lexmark* did not alter the availability of the express- or implied-license defense to a claim of patent infringement. Id. at 731. As *Quanta Computer v. LG Electronics* made clear, the express- or implied-license defense is distinct from exhaustion. 128 S. Ct. 2109 (2008).

The Pending Appeals

The Supreme Court granted certiorari in both cases. The court heard arguments in *SCA Hygiene* and will hear arguments in *Lexmark* this term. The petitioners in *SCA Hygiene* and *Lexmark* each contend that *Petrella* and *Kirtsaeng*, respectively, should control in the patent context. Respondents counter that the court's recent copyright precedent does not control because of the differing statutory framework and policy considerations that underlie each area of law.

Patent and Copyright Law

In deciding each case discussed above, both the Supreme Court and Federal Circuit compared the laws' statutory framework and weighed the differing policy considerations. These and other considerations will likely affect the weight and precedential effect given to *Petrella* and *Kirtsaeng*. Key comparisons include:

> Patent licensors and licensees engaging in foreign transactions are encouraged to craft agreements which clearly communicate any restrictions or grants of rights.

• Patent protection is more difficult and costly to obtain than copyright protection.

- Copyright protection automatically attaches to a work at the time of creation and multi-jurisdictional copyright protection is generally available.

- Patent protection must be applied for in each jurisdiction and may be costly to obtain.

• The scope and term of copyright protection is generally greater than that of patent protection.

- The Copyright term for a work by an individual author is the life of the author plus 70 years.

- The term of a utility patent is 20 years from the applicable date of filing.

- The Copyright Act provides the copyright owner with the affirmative right to reproduce and distribute the copyrighted work.

- The Patent Act, on the other hand, provides only a right to exclude; a patent owner may be prevented from practicing her own patent by the patent of another.

• Patent infringement is a strict liability offense, while independent creation is available as a defense to copyright infringement.

• There is no recovery of the infringer's profits for utility patent infringement. Copyright law, on the other hand, can permit recovery of the infringer's profits.

• Patent and copyright share certain policy considerations, however:

- Application of the first sale doctrine would allow purchasers to resell goods, which enhances competition in the marketplace.

- A geographical interpretation of exhaustion would prevent the resale of goods such as automobiles and cell phones without permission from the rights holder.

Though certain differences may justify maintaining differing approaches in patent and copyright law, these differences likely do not mandate a particular outcome.

For example, the strict-liability standard for patent infringement favors keeping laches available. As *SCA Hygiene* explained, "in the medical device industry, a company may independently develop an invention and spend enormous sums of money to usher the resultant product through regulatory approval and marketing, only to have a patentee emerge six years later to seek the most profitable six years of revenue." 807 F.3d at 1330.

Other differences favor keeping *Lexmark*'s patent-owner-friendly exhaustion framework in place. For example, the limited grant of rights, shorter patent term, and the difficulty and high cost of obtaining patent rights support *Lexmark*'s rule.

On the other hand, a number of considerations, including similarities between the patent and copyright law, militate in favor of patent-copyright harmonization. With respect to laches, the concerns expressed in *Petrella* about loss of evidence and witnesses due to lengthy copyright terms are less prevalent in the patent context. And, as the dissent in *Lexmark* notes, the same policy considerations which support *Kirtsaeng*'s international exhaustion framework also apply with equal force in the patent context. See *Lexmark*, 816 F.3d at 787 (Dyk, J., dissenting).

Guidance for Practitioners

While we await the court's decisions, *Lexmark* and *SCA Hygiene* remain good law. Practitioners, however, can take steps to prepare for changes in the law and to protect themselves under the law as it is today.

For example, although foreign sales do not per se exhaust U.S. patent rights, the express- or implied-license defense remains available. Patent licensors and licensees engaging in foreign transactions are thus encouraged to craft agreements which clearly communicate any restrictions or grants of rights.

And, with the continued availability under *Lexmark* of laches to bar recovery of past damages for patent infringement and the availability in extraordinary circumstances to bar recovery of an ongoing royalty, patent holders are cautioned to avoid excessive delay in bringing suit, especially a delay greater than six years after learning of allegedly infringing conduct.